Political Dimensions of Multinational Corporations in India

A Report under the Indo-Dutch Programme on Alternatives in Development

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PREFACE

The present study on "Political Dimensions of the Role of the MNCs in India" was undertaken as a part of the ICSSR-IMWOO Research Programme on Alternatives in Development. The purpose of the study was to assess the political dimensions of the nature and operations of multinational corporations in India. The operations of the MNCs were studied in the context of their global objectives with focus on the means employed by these companies to influence industrial and other economic policies in India. This involved and exploration of possible linkages between MNCs and various elements of the Indian political system, particularly the politico-administrative policy formulation and implementation, identificationof the forums which are most representative of foreign capital and a review of their activities; examination of the methods used by the parent MNCs to exercise control over their Indian affiliates or collaborators; and the implications of all these factors for the Indian economy and policies. The study also incorporates a review of government policies towards foreign capital, in the light of the efforts by the MNCs to influence these in their favour.

Among those who contributed substantially in writing the report, particular mention may be made of my colleagues Shri Anil Nauriya, Shri Kamal Mitra Chenoy, Ms. Anjana Mangalagiri & Ms. Rohini Bhushan. Ms. Sunita Bahadur, assisted in the compilation of the report while Ms. Jitender Kaur, Shri Pranab Bhattacharya and Ms. Sandhya Vikram Singh rendered research assistance at various stages of the study.

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A substantial amount of data was compiled from the Corporate Information system of the Corporate Studies Group (CSG), IIPA,. We would like to thank all the members of the group for giving their valuable time in terms of discussions, ideas and useful suggestions. Particular mention may be made of Shri Nagesh Kumar and Shri K.S. Chalapati Rao who made useful contribution to the study.

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Although it is not possible perhaps to mention all those colleagues and friends who at various stages of the study extended their kind cooperation, we remain grateful to them. Finally, it would be but proper to mention that the responsibility for the views expressed in this report is entirely that of the members of the research project.

Professor S.P. VERMA
Project Director

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CHAPTER I

POLITICAL DIMENSIONS OF TRANSNATIONAL CAPITAL -- THE GLOBAL PERSPECTIVE

> There is always a time lag between what is happening at the economic base on the one hand and at the level of the institutionalization of political purposes on the other. Economic realities tend always to move faster than political responses and theoretical interpretations. We are forever running behind the facts and this time lag becomes even more pronounced when we deal with global affairs. (Ankie Hoogvelt, <u>The Third World in Global Development</u>, 1982)

The subject of foreign direct investments and multinational corporations has been one of the main areas of study in International Economics in recent times. Concern over their role, has triggered of considerable amount of debate and discussion among economic and political circles in the Third World countries. This concern however has been a consequence of the deleterious impact of foreign capital in general especially after World War II, in the economies of the underdeveloped countries. It is now being realized that foreign capital which projected itself as a succour of industrialization and modernization of these countries has severely lapsed in 'delivering its goods'. Instead of aiding these economies towards development of a self-sufficient system, it is now observed that third world countries more than ever, have become dependent on foreign capital. This has not only effected a lop-sided pattern of industrialization but has also created an indispensability in their economic structures which would actually collapse if foreign capital was to suddenly withdraw itself. It is in the light of such a situation that there is now a reassessment of the performance of foreign capital and MNCs with regard especially to the third world. Considerable scepticism and criticism has been generated from the liberal and radical schools of thought on the nature of MNC operatons. Their scope of analysis has remained broadly around economic implications of MNCs.

The propensity to see MNCs and evaluate then in global terms must be tempered by an appreciation and understanding of the broad framework within which MNCs operate and the nature of host countries' economies with regard to their policies of development. MNC operations are not carried on in an economic vacuum. Their success has depended to a large extent on extra-economic factors. Such a strategy may best be

understood under the broad canopy of the corporate ideology[1]. The driving force behind this ideology is essentially that of profit-maximization which manifests itself in different forms for realizing the goals of MNCs, such as propagation of the idea of growth, income generating models, developmentalism (i.e. MNCs as instruments of progress, advance and modernization) etc. Corporate ideology is a body of thought which the multinational corporate system is governed by. It derives its force in order to perform and govern its operations and activities in a specific manner, that which is always in the interest of the organization. It thus involves certain modes of carrying out these operations, which in actual fact are a product of the strength and power of the corporate system itself. These 'modes of operations' form a vital part of the whole system as they are the chief instruments in the general international spread and success of MNCs. For the purpose of this study, these 'modes of operations', have been termed as the politics or the political dimensions of the MNCs.

There is today more than ever, an urgent need to study this greatly overlooked aspect of MNCs. Implicitly though, it is understood that MNCs always apply various means in achieving their goals but seldom has this aspect been analysed and spelt out distinctly. Given the rate at which MNCs are today rapidly building and strengthening their 'empires', it is important that one understands in concrete terms, the substance and process of these modes of operations. This study has considered it imperative to analyse in detail, their actual modus operandi by highlighting political dimensions attached to their operations.

The first section then highlights briefly the exact nature of the corporate ideology. Since our major concern is with the impact of MNCs in the third world countries we go on to discuss the impact of MNC activities in these countries and try to analyse the situation in relation to their politico-economic background and their policy formulations vis-a-vis foreign capital. The underlying assumption of our study, however, is that foreign capital operations are not isolated instances or events. Rather they are part of the broader process of the development of capital internationally and essentially a part of the development of private capital in the advanced capitalist countries. The

third section thus traces this pattern without which the discussion on the wider implications of MNCs would be incomplete. Keeping in mind the global persective so characteristic of MNC operations, the last section of this chapter examines cases from several countries which reveal and support our thesis that MNCs are not mere economic entities; their operations involve an array of extra-economic strategies. These strtegies, though not projected explicitly as part of their activities, are nevertheless inherent in the very nature of their objective i.e. furthering their own advantage at the cost of the host countries.

Section I: Corporate Ideology and Political Dimensions of MNCs

We shall here briefly examine the views inherent in corporate ideology which eventually manifest in the politics of MNC operations. One of the most important ideological tenets governing MNCs is the absolute emphasis on <u>growth</u>, the persistent need of corporations to expand, to penetrate markets, to show progress etc. There is a massive aggressiveness by MNCs to relentlessly drive towards expansion not only in terms of size of their firms but also in terms of their geographical spread. Without fail, every MNC report emphasizes those areas within which it grew over a given period, where new plants were opened, where larger shares of the market were captured or where R & D made a new break-through etc. which "at best is only a thinly disguised version of earlier western expansionism". The growth issue is thus a crucial question surrounding the future of global corporations; in fact a necessity for corporate survival. In analysing the global reach of the MNCs, Barnet & Mueller explain that :

> to talk about global corporations that do not grow or that voluntarily limit their growth is to talk about a fundumental transformation of that institution which defies both its own basic ideology & the laws of oligopolistic competition: the struggle for ever-increasing shares of the market; the use of cross-subsidization to expand new and bigger markets; and the oligopolists' golden rule, "Do as the others do, but more so."[2]

The ideology of <u>profit</u> thus follows as the central goal around which all activities of MNCs centre. As Erwin Laszio put it, "They are deeply imbued with a growth ethic. Growth is seen by them as a route

to, and in need of discipline by, profit."[3] The Chairman of Eaton Corporation talked about the vital importance of profits and linked them to growth in these words: Profits are not fruits of a company's work, they are its life blood...Profits assure the future growth and existence of a company.[4]

Any diminution in profits, he believes, will produce loss in competitive ability and " ... diminishing involvement in the progress of future of the world".[5] The primary interest of the global corporation is world wide profit maximization. It is thus in the interest of not only the corporations but also the home states of these corporations to expand their activities, their interests and their power beyond their borders. There is a symbiotic relationship between the state (home countries) and MNCs. The politics of expansion of capital abroad is the primary concern of any home country as any faltering in this respect means crisis for the whole society. The conditions and requirements for the expansion of capital necessarily follow the path of accumulation, acquisition and merger which results in a growing concentation of power.[6] In an oligopolistic situation, accumulation increasingly takes the form of conglomeration i.e. expansion into other industries which have not yet reached the same degree of maturity and multi-nationalization i.e. expansion beyond existing national boundaries.[7] This greatly enhances profitability and the ability to accumulate more rapidly and the power to expand industry through interpenetration of markets in other countries and industries. It is this economic base that manifests itself in and determines the corporate ideology of MNCs and determines the political operations of MNCs abroad.

The corporate ideology of growth and profit is supplemented with the ideology of developmentalism[8] which MNCs comply with in order to justify their expanding presence in the Third World. This ideology they projects MNCs as harbingers of progress and advance, carriers of technology and capital. In fact, it fosters a certain paternalism and even racism which the management of MNCs propagate, reminiscent of the attitudes that underlay colonialism. A typical statement as that made by Carl Gerstacker of Dow, smacks of such paternalism. Speaking on his company's activities in Chile he said:

> I believe the multinational companies must emphasize their educational role in the developing nations... we should also be teaching the people, the consuming public, how to use more sophisticated products.[9]

Those countries that do not employ the services of MNCs are portrayed by the latter as 'backward' and 'unprogressive'. In the third world, MNCs project themselves as "helping" these countries to "develop". This can best be summarized in David Rockefeller's own words:

> It is this very freedom to move and to grow that has fed the mushrooming of multinational enterprise, which in turn has pointed the way toward realization of the rising expectations of a great many people. I think the time has come to praise success, not condemn it. We should be doing all in our power to lift the siege that is taking shape around our beleagured MNCs. They still have much work to do in helping to create a true world company. We must let them get on with this unfinished business.[10]

Thus the Develomentalist ideology is geared towards creating a faith in not only private enterprise but also that it is only through the 'endeavour' of large MNCs that any substantial development can take place in the underindeveloped areas of the world.

It is important to understand that MNCs are not interested in mere profit-maximization or growth of their corporations, but even more important to them is to develop and propagate a milieu congenial to private enterprise, which allows a free play of capitalist forces. MNCs thus play a crucial role in this process, deriving their strength from the nature of their economic power. Initially however, it was this power that gave them a lead in establishing their world wide hegemony. But in more recent times with the changing world economic and political situation this has no longer remained the necessary weapon. This makes notions such as MNCs "have little use for politics and less for ideology" because of their economic strength, redundant.[11] With growing economic nationalism and a militant assertion for political sovereigny by the former colonial countries, MNCs have had to resort to strategies other than their mere economic power to cope, resist and maintain their supremacy in the global arena. It is not just the economic processes of MNCs that have transformed with changes in the international economy. More significant is their ability to not only survive but also consolidate their economic power through organizing various manouvers or what we attribute to as, the politics of their

operations. As aptly put by Barnet and Mueller,

> whether a company is already well established overseas or is about to embark on a big foreign investment program, whether it is in mining or manufacturing, whether it operates in "safe" developed countries or "unsafe" underdeveloped countries, are all factors that will determine its political outlook.[12]

Section II: MNC Politics and Third World Countries

If there is anywhere today a grave concern over MNCs, it is centred mainly around their operations in the third world countries. Although in terms of the total flow of foreign capital (i.e, both direct investment and private loan capital) the greatest part has gone to the developed capitalist countries, the last twenty-five years or so have been distinguished by a tendency toward a more rapid growth in the flow to underdeveloped countries. There is however, no denying the fact that the phenomenon of foreign capital and MNCs in the third world countries dates back to their colonial history. But it is only in recent times that a great deal of resentment towards its activities has gained significance.

From these countries' point of view, two major reasons can be identified for this concern. First, having embraced foreign capital at the time of independence, third world countries today find themselves in a state of continued dependence and underdevelopment. Second, and following from the first, there is an ever-growing tussle between foreign capital and host countries in their assertion for dominance and control. Thus there is a vast area of conflict within which these two entities are operating. The politics of foreign capital and MNCs may then be understood as manifested in the conflict of interests vis-a-vis the host countries. We shall here elaborate upon these two points.

Political Dimensions of foreign capital - a historical perspective:

In order to understand the political dimensions of MNCs, it is important that we first pose the question: what is it that makes MNCs powerful in the third world countries? The history of foreign

investment in the third world countries can be traced to colonialism and its impact on their economic structures. Prior to colonialism, most of these countries had a self sufficient, pre-capitalist mode of production. With colonialism their economies were converted into export-oriented structures. The exploitation and transportion of raw materials from the colonies in return for manufactured goods from the colonizing countries drew the former into an international trade market controlled essentially by the colonial metropolis. Internal development of these countries was negligible as any infra-structural investment was only to the extent of facilitating exploitation of the resources from their centre to the port.

The transformation of the satellites'[13] mode of production from simple-commodity or simple trade to production for export, pushed these regions into the world wide mercantilist system with the process of capital accumulation confined to the controlling metropolitan areas. Though capital and labour was implanted in the satellites' economic structures, e.g. mining railways, etc. the very nature of the export economy did not encourage accumulation of capital or the diversification of production for an independent development.[14] Rather, it initiated a dependent capitalist development, with concentration of wealth and resources in few hands, generation of local vested class interests that aligned themselves with the interest of the metropolis bourgeoisie,[15] and large scale uneven development.

The forces unleashed by decolonization brought the issue of economic development to the fore. After political independence the different relations between the economic system and the system of power gave rise to different possibilities of development and autonomy in the satellite countries.

The character of the local bourgeoisie varied from comprador in some cases to collaborative in others. Colonialism without creating a base for capitalist development had introduced nevertheless, capitalist relations of production. The British for example, created a class of traders, money lenders and landlords. India after independence not only retained the colonial politico-administrative stucture but also rationalised it.[16] In Latin America, the local bourgeoisie was much

weaker than its Indian counterpart and the struggle for independence had left the Latin American economies considerably weak. There was thus a strong relation of dependence of the colonial regions on the colonizers i.e. a complete one-sided dependence of administrative, military, legal, economic and political structures. The collapse of the colonial system did not put an end to this relation. The new elite therefore looked for inspiration from the 'scientific' institutions and 'progressive' ideology of American and European societies. They believed that any reorganization of their devastated economic and political structures could only be through capitalist development. In effect, there was no major weakening of economic links with the erstwhile colonisers while new links were established with other industrialized countries.

Besides, industrial expansion of the developed countries depended in part on assuring their own supply of primary goods from the periphery. As Nyilas explains,

> on the one hand, the economic and social structure, itself transformed according to colonial functions provides to a certain extent the very basis for and the possibilities of maintaining the relations of dependence and ... functions and even produces objectively new ties of dependence while on the other the imperialist countries and their monopolies taking advantage of these possibilities are producing new forms and methods of reorganizing and consolidating the relations of dependence.[17]

Influenced by the industrialization pattern of the metroplis, peripheral countries were keen to adopt the former's development strategy viz. the <u>growth model</u>. Third World countries readily bought the idea that a rapid increase in per capita income and gross national product, key factors in the model, would initiate them on to a path of development. In the case of India, which was no exception to this rule, Bagchi writes,

> As a backward country India lacked the base for autonomous technological development or for succesful imitation of techniques abroad. With a poor population and a social structure dominated by a weak and far from homogeneous capitalist class, the market for the better types of consumer goods particularly durable remained extremely restricted. The state apparatus precariously balanced the interests of the landlords, monopoly capitalists,professional class and collaborationist elements in the upper classes. Hence government policy was never radical enough to release agriculture from conditions of semi-feudal bondage, and lay a firm base for assured growth.[18]

Third World governments thus became engaged in various plans and public expenditure programmes which had the aim of accelerating economic growth. It was believed that increasing levels of economic activity would generate the savings needed to "buy their tickets of admission to the twentieth century" -- roads, schools, hospitals and an enlarged industrial capacity and lead them to self-sufficiency in the long run. The major input for such an intensive economic activity naturally required large-scale investments of capital which the newly independent countries lacked. However, this did not seem a major obstacle as these countries in no time opened up their economies to foreign capital and technology investments expecting to initiate an accelerated industrialization and hasten the process of economic development.

The myth of the growth model was however exploded when two to three decades after independence it was realized that the economic and social conditions of the third world countries persisted in backwardness and underdevelopment. Economically, these regions became dependent on foreign capital. Their industrialization process failed to generate adequate income for a self-reliant development. Under the aegis of the growth model, they had indulged in large-scale industrialization no doubt, but it was mainly geared towards an <u>import substitution industrialization</u> process. This involved import of capital and technology which it was believed in would enable these countries to step into a strong footing for independent development as investment in industries would not only generate income but also ensure an indigenous development of technology. However, all did not go as smoothly as envisaged by their economic plans.

The import of capital through direct investments and through loans from international banks and organizations actually created a situation which entrapped these countries. On the one hand, the nature of industrialization prevented any diversification into other productive fields the most important bieng agriculture. On the other, having failed to generate their own sources of capital, third world countries found themselves in a vicious circle of borrowing and over a period of time, almost all of them had severe crisis in their balance of payments and suffered from immense debt problems.[19] They became dependent on

'aid' (mostly loans) from the advanced capitalist countries for meeting their balance of payments requirements. This 'aid' in fact created markets for MNCs in the third world.

In order to alleviate this situation proponents of the economic growth model devised the <u>export promotion industrialization</u> process. Since the third world countries were now caught up in a debt-trap, logically, they needed to generate capital, which they perceived could come through following a pattern of industrialization that would cater mainly to an export market. By this means third world contries hoped to acquire foreign exchange to rejuvenate their coffers. This strategy however, fell through. It needs no mentioning that MNCs again emerged as playing the predominant role. There was a shift from horizontal to vertical integration whereby MNCs instead of investing in one industry now operated through subsidiaries opened throughout the third world for production.[20] Different components of a single product were manufactured in more than one or two counries and exported to other third world countries for assembling.

Thus while third world countries were involved in the export promotion process of industrialization, this in no way was significict for alleviating their economic dependence. First, because the nature of such industrialization was confined to <u>manufacturing</u> of mainly consumer goods (e.g. automobiles, electric goods, drugs etc.) it had no direct relevance to the developent process of their economies. Secondly, it was again MNCs that held total controlling influence with regard to everything that made up this pattern of industrialization and finally, the debt situation of third world countries deteriorated even more as MNCs now no longer brought capital with them. They made use of local sources which pushed these countries to indulge in large-scale borrowing all over again, from international banks. Instances of some third world countries like Mexico, Brazil etc. that used to be cited as forerunners of development among third world countries because of their high growth rates, are cases in point whose economies are not only in total disarray today, but have also undergone absolute financial collapse because of problems of acute indebtedness.[21]

The story of technological development in third world countries is not any different. Although the scientific developments were often financed by the state in advanced capitalist countries, they were developed by the MNCs. Through the system of patent rights and the development of knowhow closely guarded by the firms, much of the new technological developments came to be controlled by the transnationals and other firms based in advanced capitalist countries. The third world countries in most cases allowed foreign firms to go on working within their frontiers and generally recognized the international patent laws, although in most cases the patents were held by foreign firms.[22] They thus remained technically backward and failed to introduce a spectrum of techniques, which would have required an alternative strategy of development altogether. Also, where local collaborating enterprises were public sector corporations, they found it easier to depend on MNCs to alter the economic environment so as to prepare for technological independence. MNCs in turn, found third world public sector organisations more pliable and better endowed with financial resources than local private firms. In the process, there developed a symbiotic relationship between the MNCs and the local public sector enterprises which were originally supposed to be spearheads in the third world countries' struggle for independence.[23]

This dependence on MNCs and foreign aid led to not only to a total state of dependence on foreign capital but also to a drain of resources. The third world countries actually developed further contradictions within their systems giving rise to economic underdevelopment, subjugation to foreign capital, political instability and social unrest.

Due to the growing economic and social crises in these countries, third world governments began to curb the power of foreign enterprises by regulatory measures such as industrial licensing, monitoring of foreign collaborative agreements, redrafting their laws and policies on foreign investment to impose more stringent terms regarding foreign companies, equity participation etc., and devising collaborations with more local participations. On the balance of payments problems, these economies resorted to a variety of controls such as exchange control, multiple exchange rates, quota restrictions, import tariffs, subsidies

on exports, and so on. Some countries also sought help from the Soviet bloc, particularly in setting up public sector plants. India's role in this last case is quite significant.

Section III: Changing Strategies of MNCs and their Political Implications

It is in this context that the politics of MNCs becomes significant. Having imposed a pattern of development on these countries viz. the growth model which in reality is the logic for development of international capital and a vital instrument for the growth of MNCs, the latter had now to act on the defensive once the third world countries began to correct the imbalances imposed on them. The logic of economic growth and foreign capital domination had only hindered development and reduced its own contradictions. Given the growing opposition from these countries and the protracted struggle by the third world masses to oust foreign capital from their economies (Cuba, Nicaragua, Grenada, Chile, Iran, Vietnam, Zimbabwe, Algeria are cases in point), MNCs made considerable changes in their strategies and mode of operation to not only safeguard their interests in other areas but also to actively propagate the validity and benefits of a 'free' market economy, private enterprise and foreign investment.

Channels utilized for such an assertion of their power have been varied. For instance, MNCs affect decisions in their favour through lobbying tactics either directly with the governments of third world countries but most often through various Chambers of Commerce which in principle share common interests with those of foreign capital. MNCs also use diplomatic pressures both through the home and host countries' diplomatic corps. As will be examined in the last section of this chapter, this channel of influence has been an effective mechanism in paying off of their economic interests. The success of MNCs in these tactics lies in the fact that the overall image they project of themselves is that they are value neutral, a political organizations and are concerned only with "doing business". In practice, this is rarely the case. The garb of 'neutrality' however is essential, as the very

ethos of private enterprise and monopoly power depends on being extremely sensitive to the political milieu of its operations. Repeatedly, annual reports or other literature brought out by the MNCs, have emphasized the essential need for a "stable" political environment as "instability" they reiterate, endangers their sales and profits. Political stability thus stands out as of extremely great importance to MNCs, and as one of the conditions locally, that most influence their investment decisions.[24]

In this context, it is rather ironic that the U.S. for instance, which boasts of being the largest democracy, has at the same time 'helped' its own MNCs dislocate democracies in other parts of the world or have panicked at those moments when even slightly populist regimes have come to power. The Trilateral Commission that was established in 1973 by David Rockefeller is one of the recent instances of business interests in the developed world which aligned together to safeguard their interests that they felt were being 'threatened' by the increasing political consciousness in the third world.[25]

Recent developments in international capital:

The last twenty years have produced important changes in the exportation of capital, which results from and reflects the changes that have taken place in international economic relations and finance capital. The total amount of capital exported to underdeveloped countries increased at a more rapid rate during the seventies, registering a 22 percent growth rate between 1970 and 1977.[26] With the beginning of the 1974-75 economic crisis, which is continuing till today, there was a relative decrease in the amount of capital destined for investment in production due to a glut in the world economy. This lead to the overproduction of capital, leading to a relative increase in export of capital. In terms of GNP of the developed countries, the export of capital increased considerably to the underdeveloped countries. From 1960 to 1970 the amount ranged from 0.75 to 0.80 % of the GNP in countries involved in the Development Assistance Committee (DAC), which is made up of United States, Western Europe, Japan,

Australia and New Zealand. In 1976 it reached 0.98% and in 1978 1.26%.[27] Though apologists of foreign capital analyse this data as being good for the underdeveloped countries since export of capital is a financial resource for these countries, actually these figures do no more than reveal the conditions of economic crisis. The process of capital accumulation increases the relative financial surplus that is regularly produced, causing proportional increase of export of capital in the GNP.

Even deeper changes have taken place in the origin and structure of the types of capital exportation. The DAC countries have greatly decreased their participation in the volume of capital exported to underdeveloped countries. In 1970 they provided 88% of the total; by 1977 this amount had decreased to 68%. The major cause of this decrease was the extraordinary growth in transnational bank loans from Eurocurrency capital market, which do not take into consideration the country from which capital emanates and which therefore are not attributed to any DAC country. From 1970 to 1976 this type of loan increased to 18.1 billion dollars.[28] Also there has been an increase in the growth of private capital over state capital. In 1970 the former represented 50% of the total capital exported to underdeveloped countries and in 1977 it reached 77.2%. Most important is the fact that during the seventies there was a relative decrease in direct investments despite its rapid increase in absolute terms. Thus in 1970, 55.4% of private capital was in the form of direct investment; in 1976 39.8% and in 1977, 31%.[29] The direction of these changes points to the increasingly parasitic nature of export capital revealing the sharpening of contradictions in the reproduction of monopoly capital. Magdoff and Sweezy have summarized this situation succintly:

> In certain historical contexts, capitalism's drive to unlimited expansion of production can operate freely and with only occasional or minor setbacks. Such was the case in the nineteenth century with the industrial revolution and the opening up of new continents as the context. Such is the case in major wars and the period following ... when ... radically new relations between the various units that make up the global system are being shaped and organized, but these periods do not last forever. Gradually the underlying contradiction between the tendencies to unlimited expansion of production and restricted consumption exerts itself. And when it takes over ... the capital good sectors are discovered to have grown to a size that cannot be sustained and their collapse follows with dire consequences for the functioning of the entire system.[30]

Thus given the conditions of the international capitalist economy and also of the national economies of the developed as well as the underdeveloped countries that comprise that system, there have been difficulties in investing these growing amounts of capital in the productive sphere, which has forced the export of capital toward activities not directly linked to production.

Defensive mechanisms of MNCs and strategies of operations in third world countries:

Transnational monopoly strategy to protect these investments then followed a number of main directions. First, it formed clauses protecting foreign investments in bilateral and multilateral agreements. Second, it initiated collective capital investments with the participation of monopolies from a number of advanced capitalist countries. Third, it went into joint ventures with local capital in the third world, to ensure a favourable investment climate and facilitate greater access to the local economy.

With the emergence and growth of the EEC for instance, Western Europe began to develop a multilateral strategy of foreign capital penetration. In the African context, this was implemented through the Lome Convention. The objective of such a strategy was to compensate for each European country's relative weakness compared to the U.S. and Japan and to benefit from Europe's former colonial relationship with Africa. For the North African and Middle Eastern countries not participating in these multilateral agreements, the EEC developed bilateral agreements such as those with Morocco, Egypt, Tunisia, Algeria, Israel, Jordan, Syria and Lebanon. The United States on the other hand organized its own agreements. Bilaterally it forged treaties with Latin American countries that manifested among others, in the Alliance for Progress, the main objective of which was to provide massive funds, for 'economic and social development' of these countries in order that they remained the preserve of American interests. Secondly, it intended to stall the growing discontent in Latin America against American domination and thirdly, to combat the spread of communism which became a growing threat

after the Cuban revolution. Besides, inter-American trade agreements were also formed with those Latin American countries where American MNC operations were substantial. This was also aided by military repression that the U.S. government encouraged through large-scale sale of arms and training of Latin American military personnel. The case of Chile is not unknown. In other parts of the third world however, U.S. strategy of economic penetration manifested under the political cover of the EEC and military cover of NATO and other third world allies, their investments being completely monopolized by transnationals and leading financial groups.

Such bi-and multilateral strategies thus ensured the transnationals' interests, of their continuing growth despite the severe economic crises faced from the home front. The success of these strategies lay in setting up a collective front of the developed countries, making it possible simultaneously to strengthen Europe relative to the United States in their inter-business and power rivalries and diminish conflicts among European countries in terms of dividing up the third world countries. Secondly, they ensured unlimited export of capital under safe and stable conditions by offering third world countries the lure of trade concessions in exchange. They also strengthened the international division of labour by promoting such industries in these countries that involved specialization and concentration of investment in products needed for industries in the developed countries "ensuring continuity from the colonial to the neocolonial division of labour".[31] The politics of bi-and multilateralism thus lay in helping home countries or the western economic community (e.g. the EEC) in redressing the deficits in their balance of trade and payments with the rest of the world while at the same time strengthening third world countries' dependence on foreign capital and loans.

'Lateral' (i.e. bilateral or multilateral) strategies utilized for the interests of MNCs and home governments have more often than not been backed by another set of international organizations set up mainly to cushion the growth and spread of international capital, for the benefit of the home coutries whose source of economic and political power today

rests entirely on the export of capital. Organizations such as the IMF, the World Bank, GATT, Export-Import Bank, Inter-American Development Bank etc. have played a crucial role in this perspective. Their concerted efforts have been in lobbying for transnational capital and MNCs. There is no doubt left today that these agencies were set up with the main objective of penetrating and manipulating foreign capital in areas of high profitability in third world countries in the face of resistance by these countries to the direct approach of foreign capital. The politics of these agencies and programmes has thus been to carve a path whereby host countries would be entrapped in the foreign capital syndrome.

The typical manner in which the IMF for instance operates is as follows. If a third world country opts to follow an industrialization policy which requires large scale foreign capital and purchase of technology, the IMF plays an effective role in the supply of both short and long-term credit. For the repayment of its debts however, it has always enforced on the borrowing countries to tighten public expenditures which has meant diverting resources from the public to the private sector. It has also meant freeze on wage increases, cuts in public utilities and scarcity of commodities especially food, for local consumption. Where borrower countries experience financial crises due to extensive debt problems, the IMF 'stabilization' programmes press upon them to adopt trade and foreign investment[32] as possible succours. IMF tied loans are generally directed towards fiancing of foreign investment operations. The stabilization programmes not only place restrictions on public expenditure but also impose a squeeze on domestically-owned business. National currencies are generally made to undergo devaluation which raises the cost of imports which domestic enterprises cannot cope with, while liberalization of imports rob them of protected markets. Since the basic aim of the IMF is to "free resources for export", devaluation of a country's currency is seen as a stimulant to exports raising at the same time the prices of the local products. The pressure for devaluation has been particularly great when a third world country has had to seek assistance from international agencies and from foreign governments in order to meet its balance of payments deficits. Thus the IMF policy prescriptions become an

immediate, temporary relief for a financial crisis of the borrower country. According to Cheryl Payer,

> Nominally independent countries find that their debts, and their constant inability to finance current needs out of imports keep them tied by a tight leash to their creditors ... It (IMF) is debt scale. If they remain within the system, the debtor countries are doomed to perpetual underdevelopment, or rather to development of their exports at the service of multinational enterprises,[33] at the expense of development for the needs of their own citizens.

In an increasing number of cases, in countries like Chile, Phillipines, Korea and most important of all, India, it has been repeatedly observed that IMF and World Bank policies have further entrapped their economies into a financial melee while the role of foreign investments and MNCs has increased simultaneously.

The role of the developed countries of course is significant in the activities of these financing and international aid organisations. Through their voting power they seek to use public money to subsidize global business, despite increasing resistance to foreign assistance from home.

Politics of Aid:

Aid programmes again, carry the objectives and goals linked directly or indirectly to the operations of foreign capital considering that all aid organisations emanate from the western, developed world. Though some of the aid from the advanced countries may be obviously useful, most foreign aid today is inevitably 'tied' to those areas which in actual fact will involve foreign business interests. It is no secret today that all forms of aid to third world countries has been highly politically motivated and directed specifically in those areas that are capital intensive with high productivity or in those areas where foreign capital is already involved. It is important to understand that the international community does not feel 'responsible' for the 'poor' world. Aid is in fact, used

> as a means of maintaining, especially after the loss of colonies, a common interest between the elites of underdeveloped countries and the metropolitan countries, or as a kind of bribe to help make it worth their while to continue to co-operate with the drain of capital from their countries.[34]

The purpose of aid as projected by the developed countries is to "promote development". However, the former president of the World Bank, Mr Eugene Black summarised the actual objectives of aid.

> Our foreign aid programs constitute a distinct benefit to American business. The three major benefits are 1) foreign aid provides a substantial and immediate market for U.S. goods and services. 2) foreign aid stimulates the development of new overseas markets for U.S. companies, 3) foreign aid orients national economies toward a free enterprise system in which U.S. firms can prosper.[35]

In more politically overt terms, President Kennedy in 1961, expressed his views on aid. "Foreign aid," he said "is a method by which the U.S. maintains a position of influence and control around the world and sustains a good many countries which would definitely collapse or pass into the communist bloc," while President Nixon was even more blatant. The purpose of American aid he said, was "not to help other nations but help ourselves."[36] The most recent case of this role of aid is exemplified in United States' involvement in Central America. President Reagan besides being on the verge of sharply escalating U.S. military exercises in Central America and increasing covert operations, has also proposed a 40 percent increase in aid with a tougher rhetoric on the dangers of communism overtaking and possibly upsetting U.S. interests in other Latin American countries, most importantly, Mexico.[37]

Thus it is more than evident, that aid is not always used as means of promoting particular economic policies. More often, it is used merely as a political weapon. It is however tragic, that quite a large number of underdeveloped countries have allowed themselves to become heavily dependent on this form of aid, especially the variety supplied by the U.S. in what are known as 'Food for Peace' programmes, highly susceptible to political manipulation. As the office of Political Research of the Central Intelligence Agency points out:

> In a cooler and therefore hungrier world, the U.S. near-monopoly as a food exporter ... could give the U.S. a measure of power it never had before -- possibly an economic and political dominance greater than that of the immediate post World War II ... years ... Washington could acquire virtual life and death power over the fate of the multitudes of the needy.[38]

It however needs no mention that such aid programmes are interlinked with and operate closely with the above mentioned bi-and multilateral

organisations including the World Bank, IMF and the United Nations. This has given great leverage and space to foreign capital and business interests to politically manipulate these channels in order to maintain their status-quo.

Role of Global Organizations and transnational capital:

Having discussed the role of multilateral and aid organizations and their political partnership with international business interests, we now turn to a third area namely the global organisations set up specifically for third world development, which we believe is another major area utilized by international capital for the perpetuation of its global spread. We are referring here in particular to global organizations initiated with the participation and in consultation with third world countries. Their objective has been two-fold. First, the advanced capitalist countries needed to put a fresh garb on old tactics in order to overcome the growing crises in their economies. Secondly, to 'aid' third world countries to emerge from the economic melee as a consequence of the preponderant role played by foreign capital in these countries. The 'new' engines of change thus manifested in the New International Economic order, South-South Co-operation of the Group of 77, and the very recent North-South 'programme of survival' proposed by the Brandt Commission.

It will be significant to point out that as a consequence of the growth and changing scope of the activities of MNCs, by the 1970, <u>international production</u> had surpassed <u>international trade</u> as a vehicle for international economic exchanges. That is to say, the combined production of all MNCs aborad was now greater than the total value of goods and services that entered into trade between countries.[39] World production become more important than world trade. This process not only continued throughout the decade; it also blended in with the process of economic differentiation of the Third World. Today, the rapidly developing countries of the Third World are precisely those which have become more closely involved with the process of world production organised by MNCs. While these countries have become

important links in the widening chain of international production, the poorer countries of the Third World are increasingly being excluded from it. Second, the petro-dollar fuelled expansion of the international capital markets has contributed to an increased involvement by international finance capital with multinational-controlled productive enterprises inside the Third World. The mediating link between the two (i.e. international capital and third world countries) is now the governments of the third world countries. Paradoxically therefore, the very demands for national economic liberation which had led to practices of expropriation of foreign-owned enterprises inside third world countries did not result in a greater national control over such enterprises. The nationalising state had to find alternatve sources of capital for the nationalised enterprises. They thus had to revert to international capital in the form of loans from foreign banks and transnational capital.

There emerged a new tripartite collaboration of international finance, multinational corporations and the state on the one hand and on the other a simultaneous alliance of MNCs, the third world state and its local private capital. These alliances have prompted the creation of new political alignments, institutions and political ideologies. The nature of these alignments have been in conjunction with the third world elite. Third World countries have forged a greater political unity and solidarity through various institutional venues in the Group of 77 (now consisting of over 120 nations) or in the Group of Non-aligned Nations or as caucus groups within various sub-organisations of the United Nations itself.

At the same time however, they also forged a diplomatic alliance amongst the advanced countries (including Japan) in their relations with the Third World. The conference on International Economic Co-operation and Development in 1976, marked the beginning of the North-South dialogue - "one moreover which seemed much in contrast to the reality of increasing economic differentiation."[40]

In 1974 this political unity culminated in the formulation of a coherent set of Third World demands for a New International Economic Order. The demands of NIEO, as it became known, were accepted by a

Resolution of the U.N. Special Assembly in May 1974 and confirmed in the 'Charter of Economic Rights and Duties of States'(1974), "itself a paradox of facts and fancy, as it prescribes the economic sovereignty of nation-states in a world where the economic power of states is actually declining."[41] The NIEO demands involved deliberate intervention in world economic exchange -- to seek to replace the 'invisible hand' which ruled world markets since the rise of international capital with a set of international agreements stabilising export earnings of Third World countries, guaranteeing the transfer of capital resources to them, reorganizing the international division of labour and legislating the economic behaviour of MNCs.

The objectives of the third world solidarity and North-South Dialogue however began to fade no sooner that they had taken off. Given the fact that third world countries were continuing to operate without question, within the old framework of international capital and business, it was obviously difficult to translate the general demands of NIEO into specific policies or even to maintain unity at the level of rhetoric.[42] Given the structural backwardness within third world economies, the advanced countries on their part used this situation to explain the failure of third world countries in their efforts to develop independently. They thus began to propagate a new perspective of 'global management' and of an 'interdependent' world. This perspective:

> while essentially leaving the old world economic order intact, would forge and legitimate closer links between international big business and global institutions on the one hand, and the repressive states of the fast-growing developing countries on the other.[43]

It is no doubt true that third world governments have a lot of account for the backward and underdeveloped state of their economies. While external relations may be an important factor in the analysis of dependence, it does not mean that the national history of a country is entirely dependent and moulded by these forces.[44] It is also a function of the internal alliances of the country. Though the struggles for independence in most third world countries were strongly nationalist in character, once independent, country by country almost all of them followed a similar pattern of economic development, i.e.on lines of'

models of development' as in the advanced countries. Thus the significance of nationalist struggles lay in so far as political power and economic control were transferred from the foreign to indigenous vested interests, which at the end of the day were not really keen on building objectives of self-reliance and autonomous development, but sought their strength through alliance with their former colonizers. As Cardoso and Faletto rightly explain,

> there is no metaphysical relation to dependence between one nation and another, between one state and another. These relations are made possible through a network of interests and coercions that bind some social groups to others, some classes to others. This being the case, it is necessary to determine the way in which state, class and production are related in each basic situation of dependence.[45]

Even in the case of those third world countries which did start on an independent footing initially, e.g. India, shifted their strategies later, from an independent industrialization pattern to one dependent on foreign capital and international loans. The cause of this shift as will be examined in detail in this report, was not however an isolated one but inherent in the nature of India's industrialization plans and strategies of development. This in fact paved the way for international capital. Once the Indian economy overtly adopted such strategies as import substitution industrialization, international borrowing, concentration of industrial production etc., mechanisms controlling the national economy were bound to go beyond its control. "The international market sets universal standards for the new production system unified under the control of MNCs. This stands as a major hindrance for any part of autonomous development on the dependent countries".[46]

It is the nebulous character of laws and policies relating to private foreign investment that have given advanced countries the leverage in not only making significant inroads into third world countries but also in bending whatever regulations and controls, in favour of global interdependence. This ideology has been made effective through international institutions namely the World Bank, the IMF the OECD Secretariat and various affiliated agencies of the United Nations and the U.N. Economic and Social Committee (ECOSOC), as well as many

semi-affiliated academic instituions of the North. Because of their 'concern' with the 'world economic system' these organisations advocate structural changes in international economic relations much along the lines demanded by the third world, but only superficially.

In this same vein, the Brandt Commission Report, though analysing in concrete terms the root cause of third world underdevelopment, does not in any way drastically differ from the recommendations put forward by the NIEO. The Report instead, is primarily "concerned with the preservation of the existing world economic order ... They are not interested in solutions that are incompatible with the private ownership of the means of production."[47] All said and done, the Brandt Report may project itself as a manifesto of social democracy, but in essence remains an instrument for the propagation of international capital with however, a harmonious rhetoric. In fact there is nothing drastically new in the views of Brandt Report which have not been previously aired. The Trilateral Commission, which included on its board, members both from politics and business groups, projected itself as fostering a social democratic ethos:

> much more must be done to assure that development efforts help the bottom 40 percent of the population in the developing countries. Donor and recipient countries, working together in their mutual interest, should promote development programmes that stress not only increases in GNP but also the 'qualitative' aspects of development -- the eradication of extreme poverty, a better distribution of income and wealth, the improvement or rural welfare, the reduction of unemployment and broad access to education health and social services.[48]

However, it is no secret that in airing such views the Trilateral Commission was strengthening corporate interests at home and abroad vis-a-vis its fear over the growing unrest in third world countries that would put transnational business interests in jeopardy.

With the institutions of the advanced countries projecting themselves as the champions of third world development, it will not be presumptious to state that even the South-South Cooperation Programme of the Group of 77 has been influenced considerably by the pious platitudes of 'interdependence' and 'globalism'. The 'basic needs strategy'[49] that is now being much talked about in the group has been a logical outgrowth and an extension of a new development strategy which has merely replaced

emphasis on economic growth with an emphasis on redistribution and employment. This would be brought about by targeting concessionary resources transfers from the developed to the least developed countries, while other forms of assistance namely, loans, aid etc. would be focussed on the poorest segments of the 'middle-income' countries. Thus once again, we find ourselves in a situation where today strategies devised even by the third world "alliance" do not pretend to break-away from those very forces of the global system which have actually led them today to the state they are in.

Section IV: Political Intervention by MNCs

The controversy over the role of MNCs has led a number of governments, labour unions and other non-governmental groups and even some MNCs, to urge the United Nations Economic and Social Council to undertake a study of the matter. In response, to these demands, the UN Council resolved unanimously on July 2, 1972, to request the Secretary General to appoint a group of eminent persons to study the role of MNCs.[50]

In accordance with the Council's resolution a group of 20 eminent persons was established, consisting of representatives from the developed Western, socialist and developing countries. The American representatives were Senator Jacob Javits (an influential and senior Senator) and J. Irwin Miller, Chairman of the Cummins Engine Company (an MNC). The Indian representative was L.K. Jha, who had served in a number of important administrative posts.[51]

On the basis of the evidence presented to it, the group whose membership was by no means anti-MNC (in the sense of an ideologically or politically committed anti-MNC position), made two strong recommendations:

(1) The Group unequivocally condemns subversive political intervention on the part of multinational corporations directed towards the overthrow or substitution of a host country's Govermnent or the fostering of internal or

international situations that stimulate conditions for such actions, and recommends that, in such an eventuality, host countries should impose strict sanctions in accordance with due process of law of the host country concerned.

(2) The Group recommends that host countries should clearly define the permissible public activities of the affiliates of multinational corporations and also prescribe sanctions against infringemencts. The financial contributions of multinational corporations as well as of others to interest groups, should be regulated and disclosed.[52]

The group also noted that MNCs are also used to serve the foreign policy interests of the parent countries, and it therefore recommended that,

> the Economic and Social Council ... should call upon countries not to use multinational corporations and their affiliates as instruments for the attainment of foreign policy goals.[53]

Apart from the above mentioned U.N. reports there is substantial evidence of attempts by MNCs to intervene in the affairs of host countries. We shall cite several instances below in order to highlight the various methods and forms by which the large corporations bring to bear pressure in support of their perceived interests.

In a large number of instances MNCs had very sizeable interests involved. For instance, in Chile in 1970, US direct private investment stood at 1.1 billion dollars, out of a total estimated foreign investment of 1.7 billion dollars,[54] with MNCs controlling crucial areas of the Chilean economy.[55] In South Africa, by 1976 foreign investment, largely by MNCs, constituted almost a fourth of all investment in the country.[56] While in Central America, U.S. MNCs, esp. United Brands, controlled the banana trade, (thus the term 'banana republics').

The Strength of Global Giants

The very size of the largest global giants is indicative of their capacity to influence host governments. For instance Exxon, a US based

MNC and the largest in the world, had a sales turnover of 108,108 million dollars in 1981, while Royal Dutch Shell Group had sales of 88,292 million dollars the same year. Both these MNCs sought to interfere in Italian politics, as we shall see below. In 1981, the few biggest US based MNCs had a turnover of about 500 billion dollars, a figure easily exceeding the aggregate Gross Domestic Product of a large group of countries.[57] These corporations also recruited influential opinion-makers i.e. politicians, former senior administrators, and other important dignatories. This considerably increased the ability of such MNCs to influence international affairs. Willard Muellar, a former Chief Economist of the Federal Trade Commission reacting to the packing of ITT boards with powerful and prestigious personages questioned: "who is more powerful in international diplomacy, the U.S. State Department or large international conglomerates like ITT?"[58]

Yet another source of power of the global corporations is their control over communications. In advertising and the media, MNCs have a dominant position, particularly in the developing countries. This enables them to shape the attitudes, opinions and values of not only policy-makers but also the consumer population in these countries.[59]

Covering Up Intervention:

Because of the intense controversy and the political embarrassment caused by revelations of their activities MNCs and their allies generally seek to keep secret or even to destroy any information relating to their activities. For example, Khondakar Mustaque Ahmed, a former President of Bangladesh, refused to divulge the details of talks he had had with U.S. representatives in Calcutta in 1971.[60] Another instance was the collusion between high officials of the CIA and ITT to fabricate and coordinate statements they had made to a 1973 Senate Inquiry into ITT's role in Chile.[61] An extreme case was that of Eli Black, President of United Brands, who committed suicide in early 1975, when the story of his company's bribery of a Honduran politician was about to be exposed.[62] Efforts at covering up information relating to sensitive political activities by MNCs, have resulted in limited

evidence about these operations, although in some cases, particularly that of Chile, there has been substantial information.

Allies of MNCs:

MNCs seeking to influence developments in host countries are able to utilise the services of a member of allies, both internal and external to the concerned country. Through a variety of inducements and pressures MNCs establish linkages with ruling and oppositional groups and political parties, the bureaucracy, chambers of commerce, military and other influential pressure groups. The large international conglomerates also obtain the support and work in consideration with their parent government and other allied governments, the international financial institutions like the World Bank and IMF, and through other international bodies.[63] A large variety ocf inducements and pressures ranging from outright bribery to the support of a military coup which we shall examine later, are used in order to obtain what are considered necessary policy changes favouring the MNCs. For example, in Chile, particularly from 1970 to 1973, the interested MNCs, notably ITT, Kennecott and Anaconda coordinated their activities with the U.S. government and the CIA, with U.S. Banks and with the IMF and World Bank in order to orchestrate a campaign against the recalcitrant Allende regime.[64] Similarly, in Iran, especially between 1951 and 1953 after the nationalisation of the Anglo-Iranian Oil Company, the British and U.S. governments worked together to oust the Mossadagh regime.[65] On the other hand, in South Africa, the MNCs, Western governments, and the international financial institutions have combined to keep the recist white minority regime in power, despite the very strong national and international feeling against it.[66]

Linkages with Political Parties and the Military:

The capacity of MNCs to intervene in the political life of the host countries is greatly enhanced by the linkages they are able to build up with ruling and oppositional political parties, senior bureaucrats and

other local influential personages, key persons in the media, and the military. In a number of instances in Latin America, e.g. in Brazil during the Goulart regime from 1962 to 1964, and in Chile during the Allende regime from 1970 to 1973, as well as in the case of Iran during the Mossadagh regime, 1951 to 1953, and in the instance of the military coup against the Mujib regime in Bangladesh in August 1975, MNCs have exploited these linkages as well as other factors in order to destablise regimes perceived as hostile.[67]

In all the above cases, MNCs and the parent governments had a close relationship with the opposition political parties in these countries and their leadership. In all these instances there is evidence of contacts between the political forces opposed to the regime and the concerned Wester governments (mainly the U.S.) and the concerned MNCs. In the Chilean case the substantial financial support to these forces by the U.S. government agencies and ITT in particular, is well documented. As a U.S. Senate Committee report put it, "Covert American activity was a factor in almost every major election in Chile between 1963 and 1973. In several instances the United States intervention was massive."[68] In several other instances, MNCs and the U.S. government supported ruling and opposition anti-communist parties in order to ward off a perceived communist threat e.g. in South Korea and Italy. Gulf Oil, by its own admission before the U.S. Senate sub-committee on multinational corporations, contributed 1 million dollars in 1966 and 3 million dollars in 1970 to the ruling Democratic Republican Party in South Korea.[69] Similarly, Exxon, Royal Dutch-Shell and British Petroleum, all among the world's 10 largest MNCs in terms of sales turnover, admitted having mad multi-million dollar contributions to the anti-communist parties in Italy (where the main opposition party was the Italian Communist Party), from 1964 to 1971 in the first case, and from 1969 to 1973, in the case of the other two. These efforts, in a sense only supplemented those by the U.S. Government which, especially during the 1950s and 1960s, had heavily financed the anti-communist political parties.[70]

MNCs and Western governments have also utilised their contacts with military personnel, in their efforts to pressurize 'recalcitrant'

regimes. For instance in Chil , more than 4,000 middle ranking and junior Army officers had been trained by the U.S. Armed Forces by 1973.[71] Moreover, despite the virtual stoppage of other economic aid (see below), U.S. military aid to Chile actually increased during the tenure of Allende's government, amounting to 33 million dollars between 1971 and 1973.[72] Furthermore, two members of the military junta that overthrew the Allende government in September 1973, General Augusto Pinochet and General Gustavo Leigh had served as military attachees in Washington for 10 years each and had both participated in U.S. training programmes. The third member of the Junta, Admiral Jose Merina, was the Naval Attache in London, and had, like Pinochet, served as a Liaison Officer with the NATO.[73] Similarly, in the military coups in Iran in 1953, Brazil in 1964 and in Bangladesh in August 1975, leading military personnelc involved had U.S. connections.[74]

Aid and MNCs:

MNCs and their parent Western governments as well as international financial institutions like the World Bank and IMF often work in concert to deny or to severely restrict aid to host governments that take steps perceived to be to the detriment of foreign private capital. For example, in Chile U.S. government and private sector as well as World Bank 'aid' was stopped by late 1970, although the IMF despite U.S. pressure extended small laons to the Allende government.[75] ITT, Kennecott and Anaconda, sometimes in coordination with U.S. government agencies, and sometimes independently, applied economic pressure on the Chilean government by moving Western courts to stop payments for Chilean copper or by lobbying with their own government to not only put economic pressure but also to politically intervene against the Allende regime.[76] In Iran, between 1951 and 1953, official British and U.S. aid was sharply reduced. In Brazil, during the tenure of the Goulart regime, official U.S. and World Bank aid was virtually stopped between 1962 and 1964.[77]

Conclusion

The all-pervasive character of international and transnational capital today has not only entrenched itself in the global arena but has also done so by the vast strength of its political manouvres. Transnational Capital has come to represent a political system in itself whereby it manifests itself through the political structures of third world countries, through various indigenous business organisations, media, advertisements, education system etc. The corporate ideology has been instrumental eve in establishing a counter-culture in the third world countries which actually patronises and supports foreign capital involvement here.[78] This has effected a gradual erosion of the internal order to third world or made them obsequious to the international order as determined today mainly by international finance capital and the multinational corporations.

It is in the context of this global perspective of the operation of international capital that the political dimensions of MNCs are reflected. In the complexity of the transnational system, the political dimensions of MNCs are not determined a priori but manifest themselves in a broad corporate ideology of the system itself. The strategies for the purpose may be incorporated in the kind of processes adopted, namely direct investment or loan capital or in the nature of operations that depend on industrialization pattern adopted (Import Substitution Industrialisation, Export Promotion etc) or through the building up of system of ideas that foster the growth and spread of international capital (growth model). International institutions (World Bank, IMF etc.) or such diverse initiatives as Brandt Commission and the New International Economic Order and South-South Cooperation have floundered in political manouvering. In this the interests of MNCs are preserved while at the same time these organisations groups are projected as 'authoritative' bodies carrying the banner of 'development'. But the fact that such as vast global set up has only further aggravated the very factors for which it justifies its existence, more than confirms that, imbibed within a corporate ideology, it can survive only through the play of political forces.

FOOTNOTES

1. The notion of corporate ideology follows from the broader notion of the capitalist ideology. It may be said that just as the growth and development of capitalism is determined by its own ideology of class relations, generating surplus value etc. it follows that the growth of MNCs is a product of the capitalist system & the corporate ideology a product of the capitalist ideology. The term 'corporate ideology' has earlier been need by R.B. Stauffer, "Transnational Corporations and Host Nations: Attitudes, Ideologies and Behaviours", in Transnational Corporations in South East Asia and the Pacific, by E. Utrecht, (ed), Vol. III, Transnational corporations Research Project, Univ. of Sydney, 1981. pp. 22-26.

2. Richard J. Barnet & Ronald E. Muller, Global Reach: The Power of the Multinational Corporations, Simon and Schuster, New York 1974, p. 337.

3. Erwin, Laszio, Goals for Mankind, Excerpt circulated by USIS, New Delhi, cf. Taming the Giants by V. Gauri Shankar, IPH, 1980. p.7.

4. R. Ablon, "Financing of the Corporate Structure for the 1980s. The Social Responsibility of the Business man," Vital Speeches, 15 April, 1977, p. 399.

5. Ibid.

6. For an understanding of the relation between accumulation of capital and MNCs, See The Depening Crisis of U.S. Capitalism, Essays by Harry Magdoff and Paul M. Sweezy, Monthly Review Press, London, 1981, pp. 81-89.

7. Ibid., p. 89.

8. Robert B. Stauffer, op. cit., pp. 14-18.

9. C.A. Gerstacker, "Dow Chemicals" in J.P. Gunneman (ed)., The Nation-State and Transnational Corporations in Conflict, with Special Reference to Latin America, Praeger, New York, 1975, p. 15.

10. D. Rockefeller, "Multinationals, under seige", Finance, June 1975, p. 6. cited in Stauffer.

11. Gauri Shankar, op. cit., p.7.

12. R.J. Barnet & R.E. Muller, op. cit., p. 76.

13. The terms 'satellite' and 'metropolis' are used by and large by dependency theorists, to signify the historically dependent relations between the underdeveloped countries or the ex-colonies and the developed capitalist countries respectively.

14. See A.G. Frank, Dependent Accumulation and Underdevelopment, Macmillan Press, London, 1978, pp. 12-17 and 38-43.

15. Frank terms such a class structure in the satellites as the 'lumpenbourgeoisie' (producers and exporters of raw materials) which, because of the nature of the export economy that restricts growth of internal markets, becomes the agent of the metropolis bourgeoisie in aiding the latter's interest. See Lumpenbourgeoisie, Lumpendevelopment: Dependence, Class and Politics in Latin America, Monthly Review Press, London, 1973.

16. A.R. Desai, "Indian Capitalist Class and Imperlialism", in Imperialism in the Modern Phase, Vol.II, ed. by A. Rahman et. al, People's Publishing House, New Delhi, 1974, pp.523-542.

17. Jozsef Nyilas, Theory and Practice of Development in the Third World, Academiai Kindo, Budapest, 1977, p.50.

18. A.K. Bagchi, The Political Economy of Underdevelopment, Cambridge University Press, London, 1982, p.94.

19. See Prabhat Patnaik, "On the Political Economy of Underdevelopment," Economic and Political Weekly, Annual Number, Feb. 1973, pp. 197-212.

20. For a detailed analysis of this process of shift from horizontal to vertical integration of firms see Stephen Hymer, The Multinational Corporation: A Radical Approach, Cambridge University Press, London, 1979, pp. 174-178.

21. See A. Mangalagiri, "Transnational Companies and the Third World -- A case study of Mexico," Secular Democracy, Annual Number, 1983, pp. 135-146.

22. See Edith Penrose, The Economics of the International Patent System, John Hopkins Press, Baltimore, 1951; C. Vaitsos" Patents Revisited: Their Function in Developing Countries," Science, Technology and Development, Ed. by Charles Cooper & Frank Cass, London, 1973.

23. For a case study on India, see P. Mohanan Pillai, Foreign Collaboration in Public Sector and Economic Development, Sardar Patel Institute of Economic and Social Research, Ahmedabad; Also, Peter Evans, Dependent Development: The Alliace of Multinational, State, and Local Capital in Brazil, Princeton University Press, New Jersey, 1979. Evans' study reveals that there exists a "triple alliance" between MNCs, the public sector and local private capital by which the local economy is drawn completely into the orbit of international capital and from which there is no escape, rather only a total collapse if internationl capital withdraws itself suddenly.

24. A large amount of literature exists on this aspect of the MNCs. See for instance Robert Gilpin, U.S. Power and the Multinational Corporations: The Political Economy of Direct Investment, Macmillan Press Ltd, London, 1975; L.H. Thunell, International Business and Political Risk, Praeger, New York, 1977; and on India, D.R. Singh, Investment Policy and Performance of U.S. Subsidiaries in India, Sterling Publishers, New Delhi, 1974.

25. The Commission intended to bring together leaders in finance, business and politics from the advanced industrial world comprising U.S., Europe and Japan to form a viable programme of development for third world countries in the face of growing economic and political crises here caused by foreign investment operations. The Commission thus intended to form a consensus of international business and financial interest. This consensus may be summed up as follows: 'Trilateral countries must work together to contain and stanopoze third world demands and to control dissent at home; where workers and the poor will subsidize this 'new deal' by accepting increasing unemployment and austerity". See "The Trilateral Commision and the Carter Administration" by Jay Peterzell, Economic and Political Weekly, Dec. 17, 1977, pp. 97-104.

26. UNIDO, World Industry Since 1960; Progress and Perspectives, New York, 1979.

27. Ibid.

28. Eugenio Espinosa, "Capital Export and Transnational Monopolies", Tricontinental, Havana, No.86, Feb, 1983, p.103.

29. Ibid.

30. Harry Magdoff and Paul M. Sweezy, The Deeping Crisis of U.S. Capitalism, Monthly Review Press, New York, 1981, pp. 56-57.

31. Eugenio Espinosa, "Transnational Monopolies and Imperialist Strategy in Africa," Tricontinental, No. 82, April, 1982, p. 52.

32. See Cheryl Payer, The Debt Trap, Pelican Books, Harmondsworth, 1974. Also, Roberto Frenkel and Guillermo O' Donnell, "The "Stabilization Programs" of the International monetary Fund and their Internal Impacts" in Capitalism and the State in U.S. - Latin American Relations by Richard R. Fagen, (ed), Stanford University Press, California, 1979. pp. 171-212.

33. Ibid., p. 49.

34. Teresa Hayter, The Creation of World Poverty: An Alternative View to the Brandt Report, Pluto Press 1981, p. 83.

35. Cited in Hayter, Ibid.

36. Idem.

37. Leslie H. Gelb, "Latin America Recalls Vietnam Parakllel; Times of India, (New Delhi), July 28.

38. Cited in Hayter, op. cit., p.86.

39. Ankie Hoogvelt, The Third World in Global Development, Macmillan Press, London, 1982, pp. 56-72.

40. Ibid., p.6.

41. Idem, p.5.

42. See S.K. Goyal, "The New International Economic Order and Transnational Corporations," IMWOO - ICSSR, New Delhi, 1982.

43. Ankie Hoogvelt, op. cit., p.6.

44. A. Mangalagiri, op. cit., p. 144.

45. F.H. Cardoso and E. Faletto, Dependency and Development in Latin America, University of California Press, London, 1979, p. 173.

46. A. Mangalagiri, op. cit.

47. For an analysis of the Brandt Commission Report, See Teresa Hayter, op. cit.

48. Trilateral Commission, Tasks Force Reports, Vol. I, p. 70. cf. Ankie Hoogvelt, op. cit., p. 100

49. The 'basic needs strategy' is yet another development approach greatly propagated since the turn of this decade by western countries. It involves a shift away from concerns with over-all national economic growth of Third World countries, to concerns with the standards of the living of the poorest 40 percent of the people in these countries. It attempts to define minimum, internationally accepted, requirements for the satisfaction of human, physical and social needs; it urges internal redistribution of income to the poorest sections and it proposes to make measures of international redistribution of wealth (i.e. foreign assistance) conditional upon implementation of redistributive policies within third world countries. The approach was officially launched at the ILO-World Employment Conference in 1976, where it was endorsed by the Group of 77 as an alternative development strategy. If however needs to be emphasized that this strategy was not invented by the World Bank. Its appeal to third world participants was due to the fact that it had originated as an authertically third world perspective. The concept basic needs was first coined by a group of radical Latin American Scholars. See Amilcar O. Herrera et.al., Catastrophe or New A Latin American World Model, Bariloche Foundation, International Development Research Society? Centre, Ottawa, 1975, cited in A.Hoogvelt, op. cit., p. 100.

50. Werner J. Feld, Multinational Corporations and U.N. Politics, Pergamon, New York 1980), p.35.

51. United Nations Department of Economic and Social Affairs, The Impact of Multinational Corporations on Development and on International Relations, UN, New York 1974, p. 21.

52. Ibid., p. 46 (emphasis in original).

53. Ibid., p. 47.

54. Figures taken from a study prepared by CORFO (the Chilean Development Corporation) in August 1972, cited in James Petras and Morris Morley, The United States and Chile - Imperialism and the Overthrow of the Allende Government, Monthly Review Press, London, 1975, p.8.

55. By the end of 1970, MNCs control in machinery and equipment (50 per cent); in Iron, steel and metal products (60 per cent); in petroleum products and distribution (over 50 per cent); industrial and other chemicals (60 per cent); rubber products (45 per cent); automotive assembly (100 per cent); radio and television (nearly 100 per cent); pharamaceuticals (nearly 100 per cent); office equipment (nearly 100 per cent); copper fabricatings (100 per cent); and advertising (90 per cent). Morover, US based MNCs, particularly Kennecott and Anaconda controlled 80 per cent of the production of Chile's only important foreign exchange earner: copper. Petras & Morley, Ibid., p.9.

56. Ann Seidman and Neva Seidman Makgetla, Outposts of Monopoly Capitalism: Southern Africa in the Changing Global Economy, Zed Press, London, p.57.

57. Fortune, May and August 1982, cited in Fidel Castro, The World Economic and Social Crisis, (Report to the Seventh Summit Conference of Non-Aligned Countries), Publishing Office of the Council of State, Havana, 1983, pp. 135-136.

58. Willard Muellar quoted in Conglomerate Report, p.95 cited in Anthony Sampson, Sovereign State: The Secret History of ITT, Hodder Stoughton, London, 1973), p.99. In 1972, the ITT's main board in New York included Eugene Black, the ex-head of the World Bank, and John McCone, a former director of the CIA. In Europe, local ITT boards included Lie (a former UN Secretary General) in Norway; Paul-Henri Spaak (an ex-Premier) in Belgium, and Lord Caccia in Britain, Ibid.

59. Richard J. Barnet & Ronald E. Muller, Global Reach The Power of the Multinational Corporations, Simon & Schuster, New York, 1974, pp. 142-146.

60. Lawrence Lifescults & Kai Bird, "Bangladesh: Anatomy of a Coup," Part I, Economic Political Weekly, December 8, 1979, pp.2006-2007.

61. This was the finding of a US Federal Grand Jury reported in The New York Times, December 23, 1976, p. C1, cited in F. Sergeyer, Chile, CIA Big Business, Progress Publishers, Moscow, 1981, p. 139. ITT reacted very strongly to the leakage of confidential memoranda which were published by Jack Anderson, the famous columnist, and reportedly considered plans to kill the journalist of The Washington Post, September 9, 1975, cited in Ibid., p.124.

62. Neil H. Jacoby, Peter Nehemkis & Richard Eells, Bribery and Extortion in World Business, Macmillan, New York 1977, p.105.

63. There have been a number of studies that have highlighted the pro-MNC role of the World Bank and the IMF. See in particular Teresa Hayter, Aid As Imperialism, Pengin, Harmondsworth, 1971; Cheryl Payer, Op.cit., 1974; Cheryl Payer, The World Bank: A Critical Analysis, Monthly Review, New York & London, 1982; and V. Vakhruslev, Naeocolonialism: Methods and Manoeuvres, Progress, Moscow, 1973.

64. The most detailed studies, based largely on official Chilean and US sources are : Petras & Morley, op.cit.; Sergeyev, op.cit.; and K. Seshadri, Chile : Travail and Tragedy, Pragati Prakashan, Delhi, 1979.

65. Benjamin Shwadran, The Middle East, Oil and the Great Powers, John Wiley, New York, 1973.

66. Seidman and Makgetla, op. cit.

67. For the cases of Brazil and Chile see Petras and Morley, op. cit. The anti-Mossadagh coup in Iran is documented very cautiously and even conservatively in Shwadran, op.cit. For this see also Fred Haliday, Iran, Dictatorship and Development, Penguin, Harmondsworth, 1979. The August 1975 military coup in Bangladesh is analysed in some detail by Lawrence Lifshultz and Kai Bird, "Bangladesh : Anatomy of a coup," Economic and Political Weekly, December 8, 1979 & December 15, 1979, pp. 1999-2014 & 2059 - 2068 respectively.

68. United States Senate, 94 Congress, Staff Report of the Senate Select Committee to Study Governmental Operations with Respect to Intelligence Activities, Washington, 1976, Appendix A1, Covert Action in Chile 1963-1973, p. 156. (This Report will henceforth be cited as Covert -Action in Chile).

69. In his testimony however, Bob R. Dorsey, the Chairman of Gulf Oil, claimed that these sums were virtually extorted from it by the ruling party which threatened the MNCs huge (over 200 million dollar) investments. cf. Jacoby, Nehemkis & Eells, op.cit., pp. 107-108.

70. Exxon's Italian subsidiary Esso Italiana had made secret political payments of 56 to 58 million dollars between 1964 and 1971. Royal Butch-Shell's affiliate Shell Italiana paid almost a million dollars annually between 1969 and 1973, when the latter was sold to the Italian government. British Petroleum's payments to the political parties of the then ruling (non-communist) coalition government totalled 1.5 million dollars from 1969 to 1973. cf. Ibid., pp.108-109.

71. Sergevev, op. cit., p. 82. ITT officials had on several occasions met senior Chilean military officers to discuss the possibilities of an anti-Allende coup. Their activities in 1970 are documented in the U.S. Senate Committee reports. See in particular U.S. Senate, Sub-committee on Multinational Corporations of the Committee of Foreign Relations, Hearings on the International Telephone and Telegraph Company and Chile, 1970-71, Washington, 1973, Part 2, esp. pp. 608-613.

72. U.S. Senate, Covert Action in Chile, p. 181.

73. Sergevev, op. cit., pp. 89-90.

74. See note 18 above.

75. Petras & Morley, op. cit.

76. See note 15 above.

77. See note 18 above; in Petras & Morley, op. cit., pp. 47-49; and Shwadran, op. cit., pp.98-115.

78. For a detailed discussion of this aspect, see Susartha Goonatilake, Crippled Minds: An Exploration into Colonial Culture, Vikas Publishing House, New Delhi, 1982.

CHAPTER II

INDIAN POLICIES AND FOREIGN CAPITAL (1947-1983)

-- AN OVERVIEW

> Today, the decisions of a handful of foreign firms, a few score men in each creditor country, are vital to the prospects of India and countries similarly placed; in Imperial times, although there was no lack of centralized political control, or of interlocking economic interests, the decision to save and invest abroad was widely dispersed through the home middle class, the potential importers of capital had a wider range of choice in creditors, albeit a narrower one in creditor countries. (Michael Kidron in Foreign Investments in India, p. 256)

This chapter presents an overview of Indian policies and foreign capital.

Section I begins with outlining a theoretical approach towards gauging the influence of foreign capital. It is argued here that the influence of foreign enterprise cannot be ascertained merely through a quantitative study and that the critical significance of the sectors in which it operates must be taken into account. It is noted that the earlier pre-independence Indian nationalist pronouncements on economic planning were also founded on such an understanding. These formulations were almost unanimous in their conviction that the 'commanding heights' of the economy (whether or not the term itself was actually used) should be in the hands of the state. The same is true of certain policy pronouncements made after independence.

With time, however, this politico-economic philosophy was placed on the back-burner. Various economic arguments have been put forward from time to time to justify increasingly liberalised entry of foreign capital into the economy. Some of these arguments are also to be found in the earlier policy pronouncements. But they have gradually come to be put forth with greater intensity and have assumed the form of what might be described as the dominant official ideology. These arguments are dealt with Section II. An attempt is made in this section to examine whether the claims made in these arguments on behalf of foreign capital are actually borne out by the empirical evidence.

Section III then shifts the discussion to another aspect of official policy. Irrespective of the economic context in which the government sees foreign capital or the specific place that was given to

it in the official scheme of things, the demands of sovereignty themselves presuppose the existence of a regulatory apparatus.

This makes it important to set out the contours of this apparatus and to review the working of the regulatory institutions that have been established.

It is in this setting that we examine the politics of foreign capital as represented by multinational corporations. Section IV indicates the intrinsic need that foreign capital has to weaken the regulatory apparatus of a self-reliant economy. It points also to external and internal mechanisms that foreign capital uses to achieve this end. The external mechanisms to which foreign capital has access include international institutions like the World Bank and the International Monetary Fund. The internal mechanisms include, apart from influence peddling by the companies themselves, the utilisation of those Chambers of Commerce and Industry that are dominated by multinational enterprises. The internal mechanisms used are often supplemented with such alliances that foreign capital is able to forge within the economy with specific industrial groups from time to time.

Section I: Evaluating Influence of Foreign Capital : The Theoretical Approach

As a general proposition it may be stated that foreign private capital in India has had greater significance and has wielded greater clout than its sheer quantitative or statistical importance would indicate. This has come about for a number of reasons some of which are characteristic of all foreign capital and some specific to India. The foremost reason specific to India is that, at the time of independence in 1947, foreign capital was predominant without question in the key areas of the economy and arguably continues to be concentrated in a number of crucial areas even today. For example, the <u>Foreign Exchange Regulation Act</u> (FERA) enacted in 1973 which was utilised to bring about a limited dilution of foreign equity in the Indian corporate sector could not initially be applied to foreign majority companies in the tea manufacturing industry apparently in view of the importance of this sector in the country's exports.

The question of how control of even a few fields of economic activity can lead to a wider dominance is not new to economic theory, it was, for instance, dealt with at some length by the American economist Thorstein Veblen in 1923.[1] Veblen pointed to the existence of "key industries" in an economy. According to him the "business concerns that have to do with other branches of production and trade "necessarily wait" on the movement of things in these "key industries".

There is, of course, no intrinsic reason why the 'key industries' referred to here should be determined on the basis of the nature of the industry alone. In any economy, the role of key industries or the controlling sectors could be performed just as well by what might be described as the 'large industrial houses'. For example, the largest 100 companies in India could be looked upon as being the controlling sector in the Indian economy. If it is shown that foreign capital wields decisive or more than an ordinary influence upon this sector, it would then follow that foreign capital exercises a crucial influence over the Indian economy as a whole. Further, if it can be shown that the influence of foreign capital within the 'large sector' has been increasing, it may provide fairly good evidence that its influence over the Indian economy as a whole has been increasing. In fact, there have been studies to which we refer in the following pages that point to a conclusion of this nature.[2]

Yet another way of looking at it would be to identify the 'growth points' or 'lead sectors' of the Indian economy and to examine the extent to which these sectors are dominated by foreign capital. This would provide an indication of the extent to which foreign capital can influence the country's future economic prospects.

Asoka Mehta pointed out in 1949-50, for instance, that though British and foreign capital was giving way to Indian capital "in old established industries, like cotton, jute textiles and other light industries", new undertakings were being set up by foreign capital (mainly British and American) "in heavy industries like chemicals, automobiles and machinery".[3]

Early Positions:

The significance of basic industries and the need for not only national but also state control over them was well recognised in the earlier nationalist pronouncements.

At its Karachi session in 1931 the Indian National Congress had committed itself to state ownership and control over key industries and services, mineral resources, railways, waterways, shipping and other public transport. The National Planning Committee was set up in 1938 under the auspices of the Indian National Congress. In a resolution passed at the seventh session of the committee held from 8 to 10 November 1945 it was stated that "the investment of foreign capital in Indian agricultural, mineral and industrial concerns since the establishment of British rule, has resulted in the acquisition by foreign interests of a measure of control over India's economic and political life which has both warped and retarded national development".[4] It said further that "the investment of foreign capital in Indian enterprise should not ordinarily be permitted hereafter in a form which would entitle it to ownership and management in respect of industries of national importance". [5] The NPC took a view that "foreign interests which now exercise a predominant control over certain vital industries in India, particularly those involving the utilisation of scarce natural resources should be acquired by the state on payment of reasonable compensation".[6] The NPC also recommended takeover of private commercial banks and insurance. Banking and insurance were a means by which widespread control could be exercised.

Jawaharlal Nehru, the chairman of the NPC, while explaining the approach to take over banking, has written of the spirit in which the Commitee deliberated: "We, or some of us at any rate, hoped to evolve a socialised system of credit. If banks, insurance etc., were not to be nationalized they should at least be under the control of the state, thus leading to a state regulation of capital and credit. It was also desirable to control the export and import trade".[7] Similarly, the Advisory Planning Board, which had been appointed by the Interim Government in October 1946, called for the nationalisation of coal,

mineral oils, iron and steel, motor, air and river transport, apart from "any industry or branch of any industry which it might be found desirable to start as a state enterprise due to the reluctance of private capital to undertake it...".[8]

Important sections of the Indian business class also adopted, from time to time, attitudes that would involve substantial restrictions on the scope for foreign private capital. In 1943 G.D. Birla demanded the repatriation of British investments in India.[9] A year later, a group of prominent industrialists, including Purushottamdas Thakurdas, J.R.D. Tata, and G.D. Birla released the Plan of Economic Development for India which has come popularly to be known as the 'Bombay Plan'. The Bombay plan called, inter alia, for a rapid development of basic industries, which it asserted would "have the effect of ultimately reducing our dependence on foreign countries for the plant and machinery required by us and consequently reducing our requirements of external finance". It did not exaggerate the country's requirements of foreign capital for the proposed plan and made the claim that the scheme "is well within the limits of our resources..."[10]

The attitude of Indian business towards foreign capital, even during the pre-independence period was, however, never constant. Some important sections of Indian Business had no hesitation in collaborating with British capital even in the pre-independence period where they perceived this to be in their interest. There is, for instance, the example of the Less-Mody Pact of 1933. Under this a section of the Indian textile industry consented to a tariff exemption granted to British as against Japanese textiles. This was in return for certain preferences given to them by Britain.[11] At the same time Indian business forged close links with the national movement. These facts have a bearing on the events that were to follow after the country achieved political independence.

The Industrial Policy Statement of 1948 and then the Industrial Policy Resolution of 1956 also suggest an understanding similar to that which marked the pre-independence statements. The significance of state control over the commanding heights of the economy was recognised in the Industrial Policy statement of 1948 and the Industrial Policy Resolution

of 1956. The very listing of specific industries for exclusive development in the public sector or, as in the Industries (Development and Regulation) Act 1951, for regulation and development by the state implied such a recognition. But, as our later discussion reveals, the principles laid down in these documents have been continually breached.[12] This comes out fairly sharply when we examine the licensing policy as actually implemented. The Industrial Licensing Policy Inquiry Committee (ILPIC), which submitted its report in 1969, examined the concessions that were given to foreign capital and Indian large houses particularly in the wake of the foreign exchange difficulties since 1957. The extent to which licences for even industries listed in Schedule 'A' of the 1956 resolution which were to be reserved for the public sector were given to private capital can be seen from Table 1 below.

The committee noted that the broadness of the categories listed in the 1956 resolution "make it difficult to examine whether licensing was in keeping with the Policy Resolution."[13] But the committee specifically pointed to the violation of the resolution in respect of mineral oil "where not only were existing refineries in the private sector permitted to continue but further establishment of private refineries was permitted in this period."[14] Although the government had a share in the new refineries, it did not have a majority participation. Similarly, a private sector unit was licensed for the processing of zinc. As ILPIC observed, the "bulk of the development" of industries in Schedule 'B' of the 1956 resolution was also licensed to private enterprise.[15] In the case of aluminium, for example, Bharat Aluminium was to be allowed to conduct all further expansion in capacity. But in 1958-59 Kaisers and Alcan were accomodated. Such violations of the earlier pronouncements have continued in the period since then. More recently, there have been proposals to throw open some more fields listed in Schedule A to the private sector.[16] This process represents a more or less explicit retreat from the position that control over the "commanding heights" of the economy is a matter of long-term political importance. This line had run, as we have observed, like a red thread through the earlier, especially pre-independence, nationalist pronouncements of Indian Planning. Its abandonment, which

Table 1

Statement showing the issue of Licences in Industries
in Schedules A and B of the Industrial Policy Resolution, 1956
Schedule 'A'

Sl.	As in the Schedule	ILPIC Product Category	PSU	Co-ops.	PVT (Others)	TOTAL
1.	Arms and Armunitions and Allied Items of Defence Equipment	Arms and Ammunition	1	..	..	1
2.	Atomic Energy	No such product	..	..	..	..
3.	Iron and Steel	Pig Iron	2	..	15	17
4.	Heavy Castings and Forgings of Iron and Steel	Steel Billets and Ingots. Iron and Steel Casting and Forgings and Stampings.	6	..	306	312
5.	Heavy Plant and Machinery required for Iron and Steel production for Mining, Machine Tool manufacture and for such other Basic Industries as may be specified by the Central Government	Mining Machinery	1	..	30	31
		Metallurgical	1	..	5	6
		Cement	..	..	9	9
		Chemical	1	..	59	60
6.	Heavy Electrical Plant including Large Hydraulic and Steam Turbines	Steam Engines, Turbines and internal Combustion Engines (including Diesel Engines)	1	..	42	42
		Electric Furnaces Boilers	..	..	2	3
		Boilers, Plants, etc.	2	..	14	16

contd/...

Sl.	As in the Schedule	ILPIC Product Category	PSU	Co-ops.	PVT (Others)	TOTAL
7.	Coal and Lignite	Coal, Lignite, etc. and other byproducts.	46	..	343	389
		L.T.C. Cook	..	..	1	1
8.	Mineral Oils	Fuel Oils	3	..	7	10
9.	Mining of Iron Ore, Manganese Ore, Chrome Ore, Gypsum, Sulphur, Gold and Diamond.		..	..	..	..
10.	Mining and Processing of Copper, Lead, Zinc, Tin, Molybdenum and Wolfram.		..	..	..	..
11.	Minerals Specified in the Schedule to the Atomic Energy (Control of Production and Use) Order, 1953.		..	..	..	..
12.	Aircraft	Aircraft	2	..	2	4
13.	Air - Transport	..	..	..	..	..
14.	Railway - Transport	..	..	..	..	..
15.	Ship Building	Ships and Vessels	..	..	12	12
16.	Telephones and Telephone Cables, Telegraph and Wireless Apparatus (Excluding Radio Receiving sets).	Other Items of Tele-communication Equipment	3	..	17	20
17.	Generation and Distribution of Electricity	..	..	..	..	..

PSU: Public Sector Unit; Co-ops: Cooperatives; PVT: Private

is reflected also in the data on foreign investments that we present below, is therefore a matter of great significance. This data suggests that foreign capital has speedily increased its presence in the more critical sectors of the Indian economy like chemicals and electrical goods. A major purpose of our exercise is to trace the manner in which this has come to pass.

Section II: Foreign Capital: The Rationalisations Examined

The need for foreign capital has been put forward on various grounds from time to time. The Prime Minister's Statement on Foreign Investments in India in the Constituent Assembly of India (Legislative) on April 6, 1949 mentioned two chief reasons why foreign capital would be needed.[17] First, it stated that foreign capital would be required to supplement Indian capital "because our national savings will not be enough for the rapid development of the country on the scale we wish..." This 'priming the pump' argument is often put forward in the development literature. In special instances of this argument particular emphasis is placed on the foreign exchange aspect, it being argued that foreign private capital helps to tide over foreign exchange shortages at a critical stage in the development of Third World economies.[18]

The second ground mentioned in the Prime Minister's Statement was with respect to the transfer of technology. It was asserted that "in many cases scientific, technical and capital equipment can best be secured along with foreign capital".

A third ground, which was not mentioned in the 1949 statement but which has come to acquire much currency in recent years, is the view that foreign-controlled enterprises can help aid the host country's export effort.

The Indian government's policies have been influenced throughout the period under consideration with one or more of these arguments though with varying intensity.

When we examine the facts we find that the validity of the claim that foreign capital supplements local savings in the host developing

Table 2

Sectoral Distribution of the Stock of Foreign Direct Investment

Industry Group	As on 31 MARCH 1964					As on 31 MARCH 1974 (in Rs.				
	Foreign Branches	Foreign Controlled Rupee Cos.	Total	Percentage		Foreign Branches	Foreign Controlled Rupee Cos.	Total	Percentage	
I. Plantations	96.4	9.5	105.9	18.7	—	92.0	15.1	107.1	11.7	—
II. Mining	4.7	-	4.7	0.9	—	4.1	2.8	6.9	0.8	—
III. Petroleum	80.6	62.7	143.3	25.3	—	73.5	61.1	134.6	14.7	—
IV. Manufacturing	22.3	207.0	229.3	40.5	100	50.1	574.7	624.8	68.4	100
1. Food and Beverages	0.2	30.0	30.2	—	13.2	3.0	49.1	52.1	—	8.3
2. Textile	9.5	7.1	16.6	—	7.2	12.9	22.7	35.6	—	5.7
3. Machinery and Machine Tools	1.4	14.3	15.7	—	6.8	1.6	40.5	42.1	—	6.7
4. Transport Equipments	--	15.0	15.0	—	6.5	-	31.8	31.8	—	5.1
5. Metals & Metal products	2.0	31.1	33.1	—	14.4	5.1	81.6	86.7	—	13.9
6. Electrical goods	0.1	18.1	18.2	—	7.9	-	68.1	68.1	—	10.9
7. Chemicals and Allied products	4.2	5.9	60.1	—	26.2	12.9	190.8	203.7	—	32.6
a) Chemicals	-	16.3	16.3	—	7.1	-	76.0	76.0	—	12.2

Contd/...

Industry Group	Foreign Branches	Foreign Controlled Rupee Cos.	Total	Percentage		Foreign Branches	Foreign Controlled Rupee Cos.	Total	Percentage	
b) Medicines and Pharmaceuticals	3.9	19.3	23.2	—	10.1	10.9	58.7	69.6	—	11.1
c) Others	0.3	20.3	20.6	—	8.9	2.0	56.1	58.1	—	9.3
8. Miscellaneous	4.9	35.5	40.4	—	17.6	14.6	90.1	104.7	—	16.7
V. Services	55.7	26.6	82.3	14.6	—	21.9	18.1	40.0	4.4	—
TOTAL	259.7	305.8	565.5	100	(100)	241.8	671.8	913.4	100	(100)

Source: Compiled from Reserve Bank of India, "India's International Investment Position, 1963-64, and 1973-74" RBI Bulletins, July 1969, and March 1978 respectively in Nagesh Kumar, M.Phil dissertation, "Evaluation of Direct Foreign Investment in India: A Case Study of Drugs and Pharmaceutical Concerns," Delhi, 1980.

countries is questionable. In fact, multinational corporations put very little of their money at risk in these countries and expand their operations with locally procured financial resources. For instance, Chaudhuri found that in the case of 50 largest TNC subsidiaries in India, only 5.3 per cent of the growth during 1956-75 was financed by foreign sources. As much as 94.6 per cent of their growth was attributable to domestic and internal sources.[19] Similarly, in a analysis of the capital structure of 8 leading foreign drug companies, it was found that actual capital inflow through subscription of equity was merely 13.51 per cent of the per cent share capital though the parent companies held 64.32 per cent of total share capital of these companies. The rest of the share capital included either capital raised through bonus shares, or was subscribed to by local public sector financial institutions of the Indian public.[20]

Foreign investment is often justified on grounds of the export exchange earnings to which it gives rise largely through exports. But the validity of this is also open to question. It was found in a study of foreign financial and technical collaborations by the Reserve Bank that between 1964-65 and 1969-70, operations of foreign subsidiaries in India resulted in a net outflow of Rs. 684 crores worth of foreign exchange on account of imports exceeding exports and other payments. The survey also revealed that wholly and majority-owned foreign firms affected the trade balance negatively to a greater extent than firms with only a minority foreign participation.[21]

S.K. Goyal has shown that the total foreign exchange earned by 133 foreign subsidiaries in 1975-76 was a bare Rs. 1,204.3 million. When the large category of 189 foreign controlled companies was taken into account the foreign exchange earned was still only about Rs. 1,776.8 million. Taking the overall balance of payments picture he has shown in the case of 133 foreign subsidiaries for the year 1975-76 that although the total foreign exchange utilised by them in that year was Rs. 2,220.1 million, their exchange earnings in the same year were no more than Rs. 1,235.8 million. This implies a net deficit of Rs. 984.34 million in a single year alone. When the group of 189 foreign controlled companies is considered the net foreign exchange contribution of the companies in 1975-76 is again negative -- a loss of around Rs. 139 million.[22]

An Indian Institute of Foreign Trade study revealed no clear evidence to establish that the proportion of manufactured goods exported by foreign susbidiaries tends to be greater than that shipped by locally-controlled companies.[23]

The 31 subsidiaries of transnational companies included in the IIFT sample were predominantly exporters of manufactured goods. Moreover, the study concentrated on the period 1974-77. This was a choice as the authors of the study themselves observe favourable to the companies so far as export performance is concerned. For the years 1970-78 witnessed a spurt in Indian exports. Moreover, the three years chosen follow the enactment of the Foreign Exchange Regulation Act which has provided an inducement to the foreign-controlled sector to place greater emphasis on export production. In the years 1974-77 the proportion of the sample companies turnover that was exported rose from 5.3 per cent to 7.2 per cent. Nearly half the total sample exports are however accounted for by one traditional exporting company alone. Also, such of the expansion registered is found to represent a price effect attributable in the main to higher prices of tea. If a correction is made for increased prices, exports by the sample subsidiaries are seen to increase at a rate lower than that for total manufactured exports from the country.[24] Similarly, operations of the foreign drug companies resulted in a net outflow of Rs. 926 crores worth of foreign exchange from the country during 1978-80 alone.[25]

Subsidiaries are usually bound by various internal restrictions imposed by the parent companies. Often these companies cannot export so as to compete with their parents or affiliates.[26] Besides, in contrast to companies with minority foreign participation, in the case of subisdiaries it is not really necessary to put all such restrictions in writing. In a survey of foreign collaborations, RBI found that over 40 per cent of the collaborations signed by foreign subsidiares and over 59 per cent of the collaborations signed by other Indian companies had restricive clauses attached to them.[27]

The RBI survey also revealed that the bulk of the regulatory clauses in agreements of all domestic companies with their foreign collaborators relate to export restrictions.[28] Formal restrictive

clauses are not the only means of maintaining control over Indian subsidiaries. Interviews conducted in the course of the IIFT study, for instance, indicated that the subsidiaries dependence on their parents being what it is, they would be the line even in the absence of such clauses. Only two out of the eleven subsidiaries interviewed asserted in categorical terms that they could export to an area irrespective of whether the parent company or an affiliate was exporting to it.[29] Since the parents and the subsidiaries usually specialise in similar, if not identical products, restrictions of this kind are fatal to any meaningful export effort. It has been found that the slight increase that has occurred in the export propensity of certain subsidiaries is attributable largely to the attempt by them to safeguard their position within the country by meeting the minimum requirements of various government policies. This is particularly the case with companies that have been affected materially by the Foreign Exchange Regulation Act.[30]

Subramanian and Pillai have provided evidence in the case of three sectors -- engineering goods, pharmaceuticals and dyestuffs -- that goes to show that the greater the share of foreign ownership in a company the lower are its exports as a proportion of its total sales for the period...[31] According to them the chief motive of multinational corporations "appeared to be the maximization of surplus transfer from an oligopolistic domestic-tariff market of the host developing country rather than the development of the host developing country's export by taking advantage of the low cost of labour."[32] Clearly, the motivations of multinationals to help increase exports of a country like India are inherently limited and cannot provide a basis for the hope that the subsidiaries would be able whether on account of their much advertised marketing network or because of other charateristics peculiar to them to emerge as the flagbearers of a possible export thrust by this country.

Whether foreign capital has made a significant contribution in the transfer of technology to the country or whether it is necessary for such a transfer to take place has also been questioned.

First of all, as the National Comittee of Science and Technology noted in 1973, foreign equity is not essential for the transfer of technology:

> "Foreign equity participation is not essential for procurement of technology. Equity participation brings dependence and has the possibility of influencing management policy directly or indirectly. Foreign Equity participation should not be permitted unless some exceptional circumstances arise where it is seen that no other source exists for the technology or comparable technology and that the only mode left for acquiring such technology is through foreign collaboration."[33]

Secondly, even when transfer of technology does take place, it remains as what might be described as a 'private' transfer. For such technology remains within the control of the parent or its subsidiary and is hardly every transferred to the economy at large. How limited such transfers are can be gauged from the following typical condition included in collaboration agreements between the subsidiary and the parent company: "The company undertakes both during continuance of this agreement and thereafter not to copy the machinery, tools and instruments or any parts thereof supplied by Philips or any subsidiary of Philips to the company or to cause of permit the same to be copied and not to prepare drawings of such machinery, tools and instruments or parts thereof nor to cause or permit the same to be prepared."[34]

The claim made on behalf of foreign capital that it brings in superior technology becomes particularly suspect when we note that after obtaining entry into the economy these companies enter into technical collaboration arrangements usually with their parents or associates for which separate payments in foreign exchange are made.[35] Separate agreements involving payment in foreign exchange of large sums of money are entered into for every component of technology brought in. It is important to keep this in mind because, as the National Committee on Science and Technology (NCST) noted:

> "... the price one pays for foreign technology (either as a lumpsum or a continuing combination of royalties, dividend repatriations, technical fees etc) is not in any way "fixed" by (the) market for such technology. The market is a monopolistic one and the price of technology is a matter of bargaining between the potential supplier and his client."[36]

This means that there is a large scope for multinationals to inflate the cost of their technology particularly when they deal with their own subsidiaries. This possibility exists even in the case of purely technical collaborations because the private sector in the host

countries usually operates in a sellers' market and is under "no compulsion to bargain with the suppliers of technology."[37]

The only possibility of bargaining in such a situation is, as the NCST observed, by holding out "the possibility of developing the technology domestically."[38]

Regarding development of fresh technology within India, it seems futile, to believe that multinationals operating in the country, tied as they are to their headquarters, would genuinely wish to foster research and development in the country. Such R & D, if they engage in it at all, is undertaken to benefit from tax and other incentives.

Besides, since the primary purpose of these companies is to maximize their global profits there is no assurance that the R & D undertaken would be relevant to the needs of the country. In fact, the nature of R & D undertaken by these companies is often of a superficial nature aimed at product differentiation, market research and sometimes research for the parent company. The case of Pond's India is reflective of the nature of such R & D directed largely towards quick gains on the market.[39] The house journal of the company describes the R & D centre set up try it in 1982 as the first such centre in the "Pond's World" outside the United States. The R & D proposed at this Centre consists of "devices (that) can be used to chemically analyse and find out the components of any substance. A competitors product, for example, can be directly broken down into its constituents..."

Even in the case of a large subsidiary like Hindustan Lever, it was noted at a high level that there had been inadequate indigenous R & D.[40] Out of 118 foreign subsidiaries in India in 1980 only 32 had recognised research establishments.[41] And only eleven of these so much as applied for any patents in the five years 1978-82.

Other Distortions:

The operations of transnational companies also involve other distortions. For example, they have, in many cases led to the growth of a questionable production pattern. Six of the ten major drugs firms that

had been operating with as much as 100 per cent foreign equity till as late as 1977 were engaged in the manufacture of pure formulations, concentrating on repacking and marketing of products manufactured by their foreign parents. Obviously, India requires a greater emphasis on effective drugs to combat malaria, tuberculosis and leprosy, rather than on painkillers, tonics and vitamin preparations.[42] The dominance of foreign companies in this field has clearly led to the neglect of priority areas.

The integration of the subsidiaries into the international marketing network of the parent companies not only tells on their export performance vis-a-vis that of local firms but also makes them prove to transfer surpluses in the form of transfer pricing. This is because subsidiaries, being part of the multinational structure, work to maximise the global profit of the multinational concerned. The net foreign exchange earned by the former on comparable trade is often lower because of extensive transfer pricing. There is enough data to show that a number of subsidiaries in this country have engaged, and continue to engage in substantial manipulation of invoices.[43] Distorted accounting systems have often been adopted for export sales. IBM, for example, equated the export value with manufacturing cost and excluded freight, insurance and packing from export invoices..[44] Evidence by the chief of customs before the Public Accounts Committee of Parliament provides information on the manner in which this company, which has now discontinued direct operations in India, also manipulated prices to evade import duty. In the case of ICL, the Public Accounts Committee of Parliament observed in 1976 that "the ICL follow different conversion factors in the matter of transfer of machines and equipment from the parent foreign extraordinarly reason, from one pound sterling =Rs. 8.3 to one pound sterling = Rs. 19.25. This must be a clever mechanism..."[45] The Monopolies and Restrictive Trade Practice Commission has shown at length how Philips underinvoiced its exports.[46] Also, it has been shown, for example, that in the case of certain raw materials imported by dye stuff and related industries "the price paid by firms with multinational connection in some cases was found 347 times more than the prices for import paid by other India firms."[47] Besides, there was a tendency among multinationals towards concentration of trade

with countries where they had subsidiaries or affiliates. Since transfer pricing is, by its very nature, resorted to between companies belonging to the same "multinational structure" this concentration is ominous.[48] A political and economic implication of the MNC's predilection towards such transfer of funds through transfer pricing and so on is that they would prefer enlarged trade and therefore export-led strategies.

The presence of foreign intermediaries has contributed also to lower export prices being realised by India in the case of many commodities. Tea is an example. The "sterling companies", which control nearly half the production and three-quarters of the exports, tended to sell India tea in a loose rather than packed or processed form to their own parent companies abroad. Apart from the loss in exchange earnings on this count, even the loose tea fetches a lower price than that reported for comparable sales by Kenya and Sri Lanka.[49]

The pattern is repeated in the tobacco industry where the concentration of foreign capital is even more pronounced. The Indian Tobacco Company (now ITC Limited) an affiliate of the British-American Tobacco Company, controlled along with its associate company, Vazir-Sultan Tobacco Ltd., more than three fifths of the cigarette production and via the India Leaf Tobacco Company (now merged with ITC Limited) dominates tobacco purchases. The company has tended to emphasise on exports of unmanufactured tobacco. And where manufactured tobacco has been exported it has realised a lower unit value than that realised on comparable exports from Malawi, Zambia, Canada and the United States.[50]

The quality of the products produced or marketed by multinationals within India is also not uniformly high. Quite unethical practices are known to have been followed. An instructive case is that of IBM. Gauri Shanker quotes Prince Azariah, a former IBM employee, to outline the manner in which used computers (IBM-1401) were passed on to this country: "It had nothing to do with the quality of the computers themselves. In fact, the 1401 -- even today, numerically, the most important computer in India -- was developed and marketed from the late 50s. By the mid-sixties, the 1401 had already started to become obsolete. Its book value was close to zero. Fully depreciated and

universally rejected second-hand 1401s were imported into India in knocked-down conditions, 'manufactured' and then leased at the original rates as if they were brand new."[51]

Section III: Regulation of Foreign Capital

It should be obvious from the preceding discussion that the activities of foreign capital need to be regulated so that its economic prorities and preferences do not supplant the specific objectives of a self-reliant economy.

The question that arises concerns the framework existing for the regulation of foreign capital in the country, whether this comes to grips with the realities of the situation, and the extent to which it has or has not been influenced by foreign capital, obviously it is first necessary to be clear about what organisational form foreign capital in India takes.

This can be categorised as follows:

(i) Branches of foreign companies (that is to say, companies registered abroad but having a place of business in India)

(ii) Foreign Subsidaries (that is companies registered in India under the Companies Act, 1956, in which more than 51 per cent of equity is held abroad.

(iii) Companies where the foreign equity is between 40-50 percent.

(iv) Companies with less than 50 per cent equity but effectively under foreign control.

(v) Companies with substantial (more than 10 per cent) equity held by a foreign company, which has a technical collaboration as well.

(vi) Companies which have collaborations, enjoy a licensee status and whose activities are subject to various restrictions.[52]

While there are other forms of foreign private enterprise as well these are not so substantial as to be included here.

It often happens that foreign capital fails to be satisfactorily categorised when the substance is missed for the form.

Thus, Zuari Agro, with around 64 per cent foreign equity was not classified as a subsidiary since the non-resident equity is divided between more than one shareholder.[53] Another peculiarity is that subsidiaries of foreign subsidiaries, even when these are completely owned, are not listed as foreign subsidiaries. This is the because according to the definition that is used, the majority equity should be held abroad by a single shareholder.

Thus when foreign capital fails to even so much as be correctly identified the regulatory mechanism is bound to be rather weak. With the enactment of FERA most foreign branches have got registered as Indian companies.

A predominant part of the activities of foreign capital in India is accounted for by a few large foreign subsidiaries. For example, in 1976 the 171 foreign subsidiaries then operating in the country had an estimated gross income of Rs. 2,500 crores. Of this the largest five subsidiaries accounted for around Rs. 725.90 crores -- that is about 30 per cent.[54] These companies were Hindustan Lever, Dunlop, Brooke Bond, Union Carbide and Indian Explosives. Nearly 90 per cent of the gross income of all the 171 subsidiaries was accounted for by the operations of less than fifty of them. Most, if not all, of these are large companies operating in more than one country. It seems clear, therefore, that the study of foreign capital in Indian is intrinsically a study of the logic of multinational enterprise.

Regarding the general regulatory administration of foreign companies much has been left to the routine procedures of the Reserve Bank of India, the department of Company Affairs, licensing, customs, excise and income-tax authorities. There is no specific official body charged with overall responsibility for a periodic scrutiny of the affairs of companies with significant foreign equity from all points of view regarding their operations in the country. The scrutiny by the

Reserve Bank of India and the Foreign Investment Board is not rigorous enough and does not fill the bill in this respect.

The principal instrument of control in the hands of the government of India at present is the Foreign Exchange Regulation Act (FERA) which provides for guidelines for the administration of these companies. One purpose of this policy was to save foreign exchange. Two draw backs of this approach can be pointed out straightaway. First, the assumption behind the policy appeared to be that the greater part of foreign exchange utilisation by the companies is through the payment of dividends and so on. In fact, it has been shown that dividends did not account for more than 5 per cent of the exchange utilisation whether by foreign subsidiaries or by foreign controlled companies in 1975-76.[55] Thus even if FERA were effectively implemented it could not have more than a marginal impact in terms of saving on drain of foreign exchange.

Secondly, FERA was founded on the premise that once foreign equity in a company touches 40 per cent or less it becomes just like any other Indian company. But as we show in chapter Seven below this is far from being the case. More often than not 40 per cent foreign equity is sufficient to retain control.

The emphasis in FERA has been largely on fixing the maximum foreign equity that a company can have in order to operate at all. Companies engaged in trading and other fields of low priority are, under this law, obliged to reduce their non-resident interest to 40 per cent or less. Firms in the manufacturing sector, with at least 60 per cent of their turnover accounted for by sophisticated manufactures and export may retain non-resident interest upto 51 per cent. And such companies as are substantially engaged in industrial activities specified in the industrial licensing policy, 1973, in export-oriented industry or in manufacturing activities requiring sophisticated technology may retain foreign equity upto 74 per cent.

This might appear on the face of it, to provide a stable basis for regulating at least the equity structure of the companies. But one factor introduces a degree of adhocism. This is that there is little to ensure that the classification of companies under FERA is not fudged and

is done in a consistent manner. The manner in which Hindustan Lever has been able to retain a higher foreign equity of 51 per cent is a case in point.[56] The scope for manipulation is evident also from the way in which the tea industry, to cite one example, was classified as a high priority industry enabling foreign companies in this field to retain 74 per cent foreign holdings. This is at variance with the fact that tea companies, are not included as manufacturing companies in the first schedule of the Industries (Development & Regulation) Act.

In fact, the problems specific to foreign capital have generally not received adequate attention in the regulation of industry as a whole. The institutions that were created to bring about a progressive regulation of industry suffered from drawbacks that hampered their work from the very beginning. Moreover, as we attempt to show in this study, they were systematically undermined. The working of the Monopolies and Restrictive Trade Practice Commission, for example, was stymied from the outset by a host of petitions filed on behalf of private industry in various courts. The three cases of Coca-Cola, Colgate and Cadbury which were referred to the Commission by the government for investigation regarding monopolistic trade practices were all stalled as a result of court cases filed by the companies concerned. Besides, the Monopolies and Restrictive Trade Practices Act, as also other regulatory legislation inthe country, overlooked the 'international personality' of multinational monopolies operating in India. Thus two or more companies or groups having a common ownership abroad are dealt with as separate corporate personalities and the interconnected nature of their operations is overlooked. The Monopolies Inquiry Commission in 1965, for instance, classified the Macneil and Barry Group and the Binny Group as separate business groups even though both were controlled by Inchcape of the U.K.[57]

Similarly, a large number of giant transnational companies remain uncovered by the MRTP Act, even though they dominate their respective markets [58] Among the dominant foreign companies escaping the MRTPA are (1) Bayer India Ltd, (2) Cadbury India Ltd (3) Colgate Palmolive Ltd. (4) Ponds India Ltd (5) Molins India Ltd (which happens to be an associate of ITC Limited) (6) Roche Proudcts (India) Ltd (7) Sandoz

India Ltd. (8) HMM Ltd (9) Food Specialities Ltd (10) Parke Davis Ltd (11) Warner Hindustan Ltd (12) Polydor (13) Fibreglass Pilkington Ltd and (14) Duphar Interfran Ltd. This is especially significant since the concept of dominant undertaking is a nebulous one and the product classificatin can be manipulated. Besides, so inadequate is the regulatory aparatus in India that a number of multinational firms are actually registered as small scale units in the country and avail of all the fiscal and other concessions that are given to such units.[59] A list of some multinationals having such small scale units is given in the Annexure 'A' to this report.

Section IV: Politics of Foreign Capital

The political implications are clear enough. Given the fact that the primary objectives of foreign capital can be fully attained by it only in a trade-oriented or "open" economy, it is in its interests to weaken the regulatory apparatus that has been constructed for building a self-reliant economy. We have referred to the internal and external mechanisms through which it seeks to do this.

Internally, foreign capital may be said to operate at three levels. The first level is the influence-peddling and pressure tactics sought to be indulged in by the companies themselves. We have shown how the Swedish controlled match company, WIMCO threatened to close down its production unit unless the Union government relented on excise duty; [60] how the multinational Siemens used the leverage obtained by it under the BHEL Siemens agreement to seek the contract for supply of instrumentation equipment for a power project in Bihar;[61] how Hindustan Lever manoeuvred to retain 51 per cent foreign equity under the Foreign Exchange Regulation Act.[62] We have tried to document the manner in which even state agencies got entangled in the lobbying that was conducted for this purpose. Thus, as we show in greater detail below, it has been found that in certain cases such agencies (including on occasion even state governments or specific departments of the Union government) have given a particular interpretation to a policy on the precise occasion when the fate of an application put in by a foreign company depended on that specific interpretation.[63]

What effect this has at the level of the individual officer has been well put by HK Paranjape "Especially at many official ends except at the very top, it is not unusual to find that the government official dealing with such concerns may have almost an inferiority complex... The (officials of multinationals) may be better qualified, have better professional reputation and standing may be more up to date in their technical and other information, and would present their case in such a manner that the government officials get flustured and overwhelmed."[64]

Company level lobbying is of course directed, in the first instance, to obtaining special benefits for the enterprise itself. But it is not always confined to this. There is the frequently observed phenomenon of these firms actually seeking to subserve the foreign policy objectives of foreign governments. No less a personage than the Secretary of the Department of Space is on record as having told the Public Accounts Committee that "the overall possiblity of espionage or intelligence gathering without the knowledge of other people is really fantastic in electronics; there is a large electro-magnetic spectrum from which you can gather this infomation..."[65] The Public Accounts Committee was sufficiently concerned about the state of affairs to comment:

> About IBM, the Secretary, Department of Space made a pregnant observation: "In the last 5 years or so we have been fairly aware of the difficult position in which the IBM has been able to place the various parts of the world." Alluding to the IBM, the representaive of the Department of Communications had similarly to say: "Regarding any international mentioning any thing specific it can be said that we would not be surprised if we come to know that some foreign multinational corporations which are operating in our country adopt certain methods which are not in our national interest". In the light of these observations and in view of the fact that the country continues to largely depend on foreign companies in the computer field the Committee's anxious concern about the security aspect will be appreciated."

Although IBM was constrained to leave the country, the pertinent point is that observations such as the one above indicate an awareness that foreign capital often operates in the wider field of the host country's defence and foreign policy.

The second level at which policy is sought to be influenced is that of the chambers of commerce or business associations in which foreign capital is predominant. These chambers have had a not inconsiderale

influence on wider issues of government policy. In the case of FERA, for instance, the revised guidelines issued in April 1976 under Section 29 of the Act appear to have been in response to pressure exerted by the Associated Chambers of Commerce and Industry (ASSOCHAM) a note of the historical origins and role of ASSOCHAM is included in Annexure 'B' to this report. The revised guidelines stipulated the resting point of 51 per cent of permissible foreign equity for certain categories of companies which would otherwise have had to dilute such equity to 40 per cent.

The third level at which foreign capital may be said to operate internally is that of the alliances that it forms from time to time with specific industrial groups in the Indian economy. Such alliances help enhance its effectiveness, in so far as it is thereby able to obtain the support of sections of indigenous business on specific issues.

Alliances that foreign capital forms with particular large industrial houses also enable it to use whatever networks of patronage and influence are already available to the latter.[66] In the early years of independence it was pointed out that while some British companies were setting up Indian subsidiaries, a large number were entering the economy through "Indo-British partnerships" as was the case with the Nuffield-Birla, ICI-Tata, Chrysler-Walchand collaborations.[67] Other examples are: Bajaj Tempo and Telco which set up undertakings along with Cynamid and Ciba Geigy; and the Birlas enabled with the Kaisers to invest in India. The Chettiars, Naidus, Thapars and Kirloskars ad many other large houses also set up companies in technical and financial collaboration with foreign companies.

Besides, these internal mechanisms are the external and supra-national bodies and the support of foreign governments that foreign capital has available to it. These include international organisations like the World Bank, IMF and so on. The World Bank has intervened on behalf of foreign capital more or less throughout the period under consideration. It has, in each such intervention, sought a liberalisation of industrial regulations and greater freedom of entry for foreign capital. More than two decades ago, the bank suggested to the government that it should dilute the policies being pursued for

self-reliance in oil.[68] It tried also to influence plan priorities and the share of the private sector in various plan projects. Later in the sixties, it was responsible for pressures upon the Indian government to devalue the rupee. All these issues are reviewed in the subsequent chapters. More recently, it sought to influence the choice of consultants for certain fertiliser plants. The recent IMF loan taken by this country was conditional on a substantial dismantling of the regulatory apparatus. Besides foreign business organisations like the US Business International and so on have often sought, as we indicate in the subsequent discussion, to assume political stances on domestic Indian, as well as international, politics, that appear to them to be likely to yield economic dividends.[69] This has naturally implied their taking specific positions with respect to the party or parties in power and even involved them in discussions on the foreign policies of South Asian nations or the foreign policies pursued by their home governments towards these nations.

FOOTNOTES

1. See Thorstein, Velben Absentee Ownership and Business Enterprise in Recent Times : The Case of America, Kelley, New York, 1964, p. 194 and pp. 312-314.

2. See S.K. Goyal, Some Aspects of the Operations of Multinational Corporations in India, Indian Institute of Public Administration, New Delhi, (mimeograph) See also discussion in Section I of the Chapter V.

3. Asoka Mehta, Who Owns India, Chetana Prakashan, Hyderabad, 1950, p. 43.

4. K.T. Shah , (ed). Report of the National Planning Committee (NPC), Vora & Co. Publishers Ltd., Bombay, 1949, p. 236.

5. Ibid.

6. K.T. Shah (ed). op. cit. p. 237.

7. Jawaharlal Nehru, Discovery of India, Asia Publishing House, Bombay 1965, p. 399.

8. M. Kidron, Foreign Investments in India, Oxford University Press, London, 1965. p. 19 fn., relying on P. Prasad, Some Economic Problems of Public Enterprises in India, H.E. Stenfert Kroese, NV Leiden, 1957, p. 95.

9. Kidron, op. cit., p. 26 citing G.D. Birla Path to Prosperity, A Collection of Speeches and Writings, The Leader Press, Allahabad, 1950.

10. A Plan of Economic Development for India, Mimeograph.

11. See, (i) Balkrishna Madan, India and Imperial Preference: A Study in Commercial Policy, Humphrey Milford. Oxford University Press, 1939, pp. 161-165. (ii) Kidron, op. cit., p. 26 see also reference in this to Jawaharlal Nehru's criticism of the pact in An Autobiography, London, 1936. p. 367, and (iii) A.D.D. Gordan, Businessmen and Politics: Rising Nationalism and Modernising Economy in Bombay 1918-1933, Manohar publications, 1978, p. 236.

12. An analysis of this is to be found in Anil Nauriya, "Regulation of Industry: Basic Issues to fore," Business Standard, Calcutta, October 2, 1982.

13. India, Department of Industrial Development, Report of the Industrial Licensing Policy Inquiry Committee (Main Report), Manager of Publications, Delhi, 1969 p. 104.

14. *Ibid.*

15. *Ibid.*, p. 107.

16. See report of the Review Committee on Electronics cited in Chapter Six, which made the recommendation that the Industrial policy resolution he amended to permit greater private participation in the telecommunications industry. There have also been reports that a number of our items hitherto reserved for the public sector may be opened to the private sector. These include heavy castings, heavy plant machinery, electronics for defence, wireless apparatus, and steel (through the sponge iron process). There were also proposals from sections of industry that the entire Schedule B of the industrial policy resolution be scrapped. See *Business Standard*, August 20, 1981 and March 20, 1982.

17. India. *Constituent Assembly of India (Legislative) Debates*. Part II., 6 April 1949, pp. 2385-2386.

18. Thus Jagdish N. Bhagwati and Padma Desai have argued: "The desire to prevent capital inflow from entering 'inessential' industries appears to have been almost certainly a case of misplaced concreteness. Thus, if a foreign investor buys up a restaurant, this will bring into the economy foreign exchange which can be used to import 'essential' machinery: to argue, therefore, that foreign investment should be excluded from the restaurant industry is just a simple and widespread fallacy". See their work *India: Planning for Industrialisation*, Oxford University Press, London, 1970, p. 224. Clearly this neglects the question of outward remittances based on this investment, as also other profits that may be derived from concealed transfers of resources.

19. Sudip Chaudhuri, "Financing of Growth of Transnational Corporations in India, 1956-75" *Economic and Political Weekly*, August 1979, pp. 1431-35.

20. See Nagesh Kumar and K.M. Chenoy, "Multinationals and Self-Reliance: A Case Study of the Drugs and Pharmaceutical Industry", *Social Scientist*, No. 107 (April 1982).

21. Reserve Bank of India, "Survey of Foreign Financial and Technical Collaboration in India Industry, 1964-70-Main Findings," *RBI Bulletin*, June 1974, pp. 1040-1083. See especially Table 41 on p. 1065 of the Bulletin. Also Vijay Kelkar, "Impact of Private Foreign Investment in India 1964-72: An Economic Analysis" in Wadhva Charan (ed). *Some Problems of India's Economic Policy*, New Delhi, Tata Mcgraw Hill 1977, pp. 720-43.

22. S.K. Goyal, *The Impact of Foreign Subsidiaries on India's Balance of Payments*, Mimeograph, IIPA, 1979, p. 64 and p. 82.

Indian Institute of Foreign Trade, *Role of Transnational Corporations in India's Exports*. The Author, New Delhi, 1981.

24. Ibid. p. 41.

25. Computed from UNI report in Financial Express, 10 October 1981.

26. See Chapter V below.

27. "Foreign Collaboration in Indian Industry: Second Survey Report, 1974, Bombay" RBI Bulletin, 1947, p. 118.

28. RBI, op. cit., RBI Bulletin, June 1947.

29. IIFT, op. cit., p. 47.

30. IIFt, op. cit., p. 49.

31. K.K. Subrahmanian and P. Mohanan Pillai, Multinationals and Indian Export, Mimeograph, Sardar Patel Institute of Economic and Social Research. Ahmedabad 1978.

32. Ibid., p. 81.

33. Report of National Committee on Science and Technology, May 1973, cited in V. Gaurishankar, Taming the Giants, Vidya Vahini, New Delhi, 1980, p. 114.

34. Report of the MRTP Commission on Phillips India Ltd., Oct. 1974.

35. See S.K. Goyal, Impact of Foreign Subsidiaries on India's Balance of Payments, Indian Institute of Public Administration, New Delhi, mimeograph. 1979 who cites a typical such agreement between ICI and its subsidary Chemicals and Fibres of India Ltd.

36. Indian National Committee on Science and Technology. Department of Science and Technology, An Approach to the Science & Technology Plan, Delhi, Jan 1973, p. 28.

37. Ibid.

38. Idem.

39. See Fragrance, (House magazine of Pond's India Limited), December 1982.

40. See minority report of MRTPC in Reference under S.22 dated 15 March 1973 for establishing a new undertaking for the manufacture of Sulphuric Acid. Phosphoric Acid and Industrial Phosphates, referred to in Report by H.K. Paranjape, Control in India of Restrictive Busiess Practices, United Nations Conference on Trade and Development, 1978, p. 7.

41. Compiled from Directory of Joint Stock Companies in India 1980, Vol. II, Research and Statistics Divison Department of Company Affairs Ministry of Law, Justice and Company Affairs government of India, New Delhi and Directory of R&D Units recognised by the Department of Science & Technology.

42. V. Gauri Shankar, The Performance of Transnational Corporations in India, Mainstream, July 23, 1977.

43. See various PAC reports. Also India, Ministry of Finance, Report of the Study Team on Leakage of Foreign Exchange Through invoice Manipulation, Government of India, 1971.

44. S.K. Goyal, op. cit. p. 128.

45. See India, Fifth Lok Sabha, Public Accounts Committee, 221st Report (1975-76), New Delhi, 1976.

46. See S.K. Goyal, cited in n. 44, pp. 71-72.

47. Subrahmanian and Pillai, op cit., pp. 56-57.

48. Ibid., p. 55.

49. Gauri Shankar (1980) op. cit., p. 119.

50. Gauri Shankar (1980) Ibid., pp. 120-121.

51. Ibid., p. 127.

52. Based on S.K. Goyal, Multinational Corporations in India: The need for a realistic policy framework, mimeograph, pp. 11-12.

53. S.K. Goyal, Some aspects of the organisation operations of Multinational, Corporations in India, IIPA, mimeograph.

54. S.K. Goyal, Multinational corporations policy framework, mimeograph pp 16-17.

55. S.K. Goyal, The Impact of foreign payments, IIPA, mimeograph, May 1979 p. 76.

56. See press reports on Hindustan Lever cited along with subsequent discussion in chapter five and six below.

57. See (i) S.K. Goyal Foreign Private Capital in India's (project Outline) Mimeograph, IIPA., 1978. and (ii) India, Report of the Monopolies Inquiry Commission, 1956.

58. S.K. Goyal, "The New International Economic Order and Transnational Companies IMWOO-ICSSR, December 16-20, 1982 (mimeograph), pp. 16-17.

59. Ibid., p. 16 and p. 19-20.

60. See Chapter five below.

61. See Chapter Six below.

62. Ibid.

63. *Ibid.*

64. M.K. Paranjape, *The Government of India and Hindustan Lever: Controlling Multinational Monopolies.* Paper presented at Symposium on Multinational Corporations, New Delhi, August, 1982.

65. See PAC 221st Report, (1975-76) no. 26, p. 162 and p. 173. Some of these references have also been mentioned in Gauri Shankar (1980), *op. cit.*, 132

66. S.K. Goyal, *MNCs and Indian Economic Development. Some Basic Issues.* IIPA. mimeograph, pp. 10-11.

67. Asoka Mehta, *op. cit.*, p. 44.

68. See Kidron, *op. cit.*, p. 172.

69. See Chapters Five and Six below.

CHAPTER III

THE INITIAL PHASE - 1947-1957

An attitude of 'hostility' on the part of Indian nationalists toward foreign capital seems to have persisted after the achievement of political independence in August 1947.[1] The recommendations made by the Economic Programme Committee of the Indian Nationa Congress (1948) and the policy pronouncementsof 1948 do give such impression. The report of the Economic Programme Committee did not refer to foreign capital as such. But the positions that the Committee took on the respective roles of the private sector and the state had severe implications for foreign capital.

The Committee emphasised that industries providing articles of and clothing and other consumer goods should constitute the decentralised ssector of the Indian economy and should, as far as possible, be developed and run on a 'cooperative basis'."[2] It stated the principle that "control of investment and licensing of new undertakings should be resorted to for the purpose of effective coordination and harmonious development of different types of industry. The Committee also stressed that "new undertakings in defence, key and public utility industries should be started under public ownership". Furthermore, it wanted that "new undertakings which are in the nature of monopolies or in view of their scale of operations serve the country as a whole or cover more than one province should be run on the basis of public ownership" (our emphasis). It stipulated that even existing undertakings coming under the concerned categories would be transferred from private to public ownership after a period of five years and in special cases even earlier. Besides (and this must have caused especial concern to foreign capital already established in the country) the report made it clear that the "existing system of managing agency should be abolished as early as possible".

The Industrial Policy Statement, placed before the Constituent Assembly (legislative) on 6 April 1948 was simultaneously both more strident and more restrained. On the one hand, it stipulated that while foreign capital "will be of value to the rapid industrialization of the country" it "should be carefully regulated in the national interest" and

that legislation would be introduced to "provide for the scrutiny and approval by the Central government of every individual case of participation of foreign capital and management in industry" and that "as a rule, the major interest in ownership, and effective control, should always be in Indian hands", though "exceptional cases" were provided for. It reserved to itself the right, to be exercised at a later date, to take over private companies operating in the fields of coal, iron and steel, aircraft manufacture, ship-building, telecommunications and mineral oils. Besides, it specified "certain basic industries of importance", (apart from arms and ammunition, atomic energy and railways that were to be the 'exclusive monopoly' of the State) which would be the "subject of Central regulation and control" taking care to mention that the list provided was not of an exhaustive nature".[3]

On the other hand, it extended assurance to existing enterprises which might have been disturbed by some of the recommendations of the Economic Programmes Committee earlier in the year. It asserted that "for some time to come" the state would expand "its present activities wherever it is already operating and by concentrating on new units of production in other fields, rather than on acquiring and running existing units." And, further, that even where its direction and control was to be exercised in the case of new units this would be done with the advice of the Industrial Advisory Council, comprising "representatives of industry and labour".

But even at this time it was by no means obvious that the pressure against foreign capital, such as there was, came primarily from the state rather than sections of the indigenous business classes. Mr. Nehru said in the Constituent Assembly (Legislative) on the following day itself :

> "...after all that has happened in the course of the last seven or eight months, (referring here obviously to the partition and the accompanying riots) one has to be very careful of what step one might take which might not injure the existing structure too much. There has been destruction and injury enough, and certainly I confess to this House that I am not brave and gallant enough to go about destroying more. I think there is room for destruction in India still of many things -- they will no doubt have to be removed, nevertheless, there is a way of approach".[4]

In any case there is no ground to believe that any specific move against foreign capital or even the large industrial houses was actually contemplated by the government of India at the time. At the Tripartite Industries Conference in December 1947, Jawaharlal Nehru had already foreshadowed the subsequent policy pronouncements by reiterating, "...it seems to me a far better approach to the problem for the state to concentrate on new industries" (than to acquire existing ones.[5] And in the following year he had, while speaking in the Constituent Assembly (Legislative) opposed, among other things, the nationalisation of key industries on the ground that "we are not going to upset existing things, we are leaving them as they are more or less, but that we are enlarging the domain in other fields, more or less specified fields, so that there may be no grievance that something is done which upset the existing structure."[6] Considering these statements and the official clarifications subsequently issued to allay the fears of foreign capital, to wit, the statement on foreign investment in April 1949 reproduced in the annexure 'C' to this report),[7] it is certainly arguable that the positions originally taken in official statements which led to the fears in the first place, were dictated in part by the rhetoric of the struggle for independence. For, in the circumstances in which the country found itself on achieving independence, a restrictive policy toward foreign capital could not have been sustained in the absence of a very determined attitude on the part of the government.

Foreign control of the organised sector at the time of independence was all-embracing. Crucial industries like tea and jute which accounted for the bulk of the country's foreign exchange earnings were wholly under foreign, specifically British, ownership. The same was the case in respect of insurance and banking, and therefore the finance of foreign trade as well.[8] The partition of the subcontinent had brought its own specific problems in its wake. Vast food growing areas had been transferred to Pakistan and it soon became clear that large-scale imports of food would be necessary at least for some time. Besides, the question of Indian Sterling balances which were under the custody of the British had not yet been settled. The British government was not inclined to release them with good grace. When it did finally release 80 million in 1948-49, it did so after virtually forcing India to permit

free imports under open general licence. This cost India a sum greater than half of the balances thus released.[9] Besides, there was pressure of the international situation and overt arm-twisting by western governments to be taken into account. The foreign policies of the government tended at the time to be pro-west[10]. It had been decided not to rupture the Commonwealth link; and Lord Louis Mountbatten had been asked to continue as independent India's Governor-General. The dispute with Pakistan over Jammu and Kashmir could not have made the government of India oblivious of the need to seek general western support, or at least neutrality, particularly after the issue had been taken to the United Nations. For its part, the United States, already for some years the leading western nation, had left no scope for doubt that it would exert all its political and diplomatic effort on behalf of foreign enterprise. In fact, within a few months of India's Independence, the then US ambassador to India clearly stated that American assistance would not be available unless plans for nationalisation were dropped.[11]

The government chose to respond to these circumstances and pressures by seeking to reassure foreign capital and to go out of its way to seek to inspire confidence in foreign investors. The statement on foreign investment made by the Prime Minister, Mr. Jawaharlal Nehru, in the Constituent Assembly (Legislative) on April 6, 1949 extended foreign private capital the assurance that it would be given "national treatment", that is to say, there would be no discrimination against foreign private capital per se.[12] The statement retracted on the possibility that had earlier been held out about legislation on foreign capital and committed the government to giving fair compensation in case foreign enterprises were compulsorily acquired. Fresh capital from abroad was welcomed preferably with majority Indian participation but, in any case, on terms that were "mutually advantageous". Mr. Nehru declared:

> "Indian capital needs to be supplemented by foreign capital not only because our national savings will not be enough for the rapid development of the country on the scale we wish, but also because in many cases scientific, technical and industrial knowledge and capital equipment can be best secured along with foreign capital".

This statement has formed the stated basis of official policies ever since. Before long there was evidence of a definite and express

recognition within the government that greater inflow of foreign capital would be in the best interests of the country. This was reflected in statements made from time to time by various official spokesmen. Restrictions on repatriation of investments were gradually removed and foreign companies were actually invited into such reserved industries as machine tools and fertilisers. Various concessions were offered to the foreign oil companies as well.[13] The Federation of Indian Chambers of Commerce and Industry (FICCI) was sufficiently concerned about the direction in which the government had been moving to take up the matter with it officially. The executive committee of the Federation, for example, addressed the following communication to the Union Ministry of Finance on August 18, 1949.[14]

> "The Committee noticed in these statements a definite and unmistakable trend leading to a virtual open-door policy for foreign capital, which is also confirmed by a number of deals under which foreign concerns have been allowed to establish themselves in this country on terms which are not even in keeping with the cardinal point of the statement of industrial policy, namely, that the major interest in ownership and effective control should always be in Indian hands. The instance of a deal with Lindsay Parkinson & Co., under which 75 per cent capital may be invested by the foreign concern and 25 per cent by the government of India is a case in point. Still more glaring is the example of a reported offer by the government of India to a foreign shipping concern for taking over the management of one of the shipping corporations..."

Yet there does not appear to have been any unanimity among leading industrial houses on the policies that should be adopted toward foreign capital even at this time. The Eastern Economist, considered close to the house of Birla, noted the role of foreign capital is, however, on a different footing today. In the past, the growth in the volume of foreign capital in India had been viewed with alarm and this was all the greater since there since there have been no precise estimates of its total amount. There is even now a hangover of this past suspicion that foreign capital would get a grip over the economic life of the country and hold it perpetually in bondage. But recent experience has conclusively demonstrated on the one hand that such fears are exaggerated and on the other that there is little of capital formation within the country and that future development can be accelerated mainly with the aid of foreign capital and collaboration. Recent government policy has been concerning itself increasingly with the question of providing those conditions which would provide incentives to foreign

venture capital to seek investment in India.")15

Meanwhile, the United States and other western countries stepped up their efforts to obtain "proper and dependable assurances with regard to the safety of foreign investments in India". The 'minatory spirit' in which such assurances were sought was taken note of in the Provisional Parliament.[16] It was clear, however, that even in the absence of further assurances, India provided fertile ground for foreign investors. It has been noted, for example, that the spread or "reach" of taxation was not very wide. In 1947 taxes appropriated only seven per cent of the gross national product, which was, as the first five-year plan document put it, "one of the lowest in the world".[17] Even at the beginning of the second plan, tax revenues accounted for only about 7.5 per cent of the national income.[18] One reason for this was that income earned from a sectors like ariculture went largely untaxed. This meant that if foreign investors were to make a careful choice of the sectors in which they wished to invest, there was much profit to be derived. So far as regulations specific to foreign capital itself were concerned, the United States authorities themselves admitted in March 1950 that "few if any of the American firms has been seriously limited in remitting profits..." (under the government of India's regulations on dividends).[19] A survey conducted under the auspices of the US Department of Commerce listed the following reasons for this:

"1. The Reserve Bank of India has an agreement with each American company established in India prior to the dividend ordinance. To impose the limitation on companies with which this agreement already exists would be considered ex post facto and the Reserve Bank has apparently refrained from doing so. It need not on the grounds refrain from applying the ordinance to companies formed after the ordinance was put into effect.

2. The Act itself empowers the Central Government to exempt any company from the provisions of the Act or make any modification in the application of its provisions to any company. This provides adequately for the Reserve Bank to make exceptions for foreign firms.

3. American companies operating in India as a wholly-owned subsidiary of an American corporation can describe its remittances of profits to the United States not as a payment of dividends to stock-holders, but as a remittance to the head office.

4. A firm which is organised in India as a branch of the American parent company will not be remitting dividends but will be remitting profits and royalty. These need not be subject to the same limitation as dividends.

5. Many of the small American manufacturing firms are not concerned so much with the remittance of profits as they are with the sale of the raw material which is imported from the United States as the basic ingredient of their product. The general point is not, therefore, to maximise dividends which the Indian subsidiary may be able to pay, but instead to maximise the market for its manfactured product in orderthat the parent company in the United States may maximise its production"[20] (Our emphasis)

This would suggest that the areas in which foreign capital sought concessions, either directly or through the good offices of its home governments, did not necessarily coincide with its real objectives, most of which may already have been attained through the sheer fact of its presence in the country. There is more than a passing hint in the above statement about the potential importance of economic gains from sources other than remittance of dividends including such devices as "head-office expenses". According to the US Department of Commerce study:

"...the leading motive of the foreign participator to invest has been the increasing difficulty of exporting his product to India under existing import control regulations. He has decided, therefore, to manufacture it in India."[21]

One corollary of this naturally was that foreign governments which often freely acted on behalf of foreign capital would, on occasion, serve as instruments to pressure the Indian government to relax its import controls. This would provide free access to the Indian market without the additional investment that would be required in case there were greater import restrictions. Thus insofar as import restrictions are unduly relaxed this strengthens the negotiating position of foreign capital in relation to the Indian state. The devaluation of currency forced upon the country in September 1949 had the same effect.[22] As we have already noted, the import relaxations made in lieu of the settlement on sterling balances in 1948-49 resulted in an additional foreign exchange cost of more than 40 million. That import policies continued to be manipulated in the subsequent years to suit foreign capital is supported by the reactions of political leaders. Speaking on the Imports and Exports (control) Amendment Bill, Mahavir Tyagi noted in the Provisional Parliament:

"There is one firm called the Imperial Chemical Industries. It is known all over the world and this organisation is also established here. 25,000 tonnes of Soda Ash is to be imported through this ICI. A license for 25,000 tons of soda ash has been issued in spite of the Tariff Board which did not relish the idea of allowing any import of Soda Ash, that is my information and if I am wrong,

nobody will be happier to know that I am wrong. And it is for the hon. minister to contradict it. The Tariff Board said that no soda ash should be imported, there is plenty of it in the country. But only recently a big licence has been given to a foreign concern which will result in the closing down of the local soda ash factories."[23]

That economic leverages would be used to influence Indian policies became apparent in the negotiations with United States in 1950 to obtain the wheat loan, when that country tried to get India to shed its neutrality on the Korean question.[24] How crude the attempts at arm-twisting could be is illustrated by another incident that occurred around this time. When as a consequence of monsoon failure India made an emergency request to the United States for food aid, efforts were made to get India to lift its embargo on exports of the thorium-rich monazite sands that are of importance in atomic energy. Congressman Charles J. Kersten, (Republican) said: "In return for the wheat we are asked to give to India, the very least we should ask of India is that it permit the United States to buy some of these strategic materials."[25] While the original conditions proposed were modified to some extent a clause relating to the possible supply of strategic or critical materials was embodied in the US India Emergency Food Act of 1951.[26] This legislation is known to be the precursor of the Public Law (PL) 480 which was enacted by the US legislature in 1954. In this atmosphere in which the Government of India, on a number of issues, showed itself willing to adopt a flexible position in the face of western pressure, foreign business interest did not fail to appreciate that India provided, at least so far as the economic and administrative conditions were concerned, fertile ground for investment. A quotation from the Economist, London, 29th November, 1952 was read out by Hiren Mukherjee in the Lok Sabha on 16 December 1952.

The atmosphere for foreign investments in unusually favourable in India. It is not a colony like Malaya or most of Africa. So there are none of the risks of independence to come. (Mark the words, Sir). It does not suffer from xenophobia, like so much of the Middle East. (I do not know what flag is flying over our head!) Its government is stable and democratic, unlike much of Latin America. Its policy about repatriation of capital and remittance of profits is liberal. Taxation is not, in general, discriminatory, and only recently the Finance Minister has removed from his Income-Tax amendment Bill those provisions which foreign capital found particularly deterrent; fiscal concessions for new enterprises are considerable. Nationalisation is not an immediate threat, and the Constitution provides for compensation for anything which may eventually be taken over. There are no compulsory

> percentages of Indian capital or managers laid down, strikes are rare and judges in labour arbitration cases more reasonable than they were a few years ago. For foreign capital there is in India not only a warm welcome but even more important, ample opportunities for making a profit.[27]

At the same time foreign capital found it expedient to make vigorous efforts to thwart certain policies which it perceived would, bringing aout greater self-reliance weaken its position. Western governments openly sought to discourage India from adopting even the rudimentary paraphernalia of a planned economy. As late as eight years after planning in India had been formally launched it was the subject of attack in an important study, "India on the Eve of the Third Five Year Plan" commissioned by the Associated Chambers of Commerce and Industry (ASSOCHAM).[28] An American representative speaking at the ECAFE Conference in Ootacamand as early as in 1948 had suggested that it would be unwise for India to concentrate on heavy indusry rather than on agriculture, mining and communications. The Beomtar remarks made by the President of the Committee of the Bombay Chaber ofCommerce were typical. Of the prioritiesindicated in the Draft outline of the First Five Year Plan he said: "... the Draft outlines concentration on producers' goods industries, which are users of capital and skill, as against consmer goods industries, which are, by contrast, users of labour, seems of dubious justification..."[29] Hiren Mukherjee, saw advice such as was given at the ootacamand conference , along with the "Point Four" approach[30] propounded earlier by President Truman as being responsible for the investment Priorities set out in the First Five Year Plan[31]:

> "Now this has also been the fundamental approach of Point Four to India and that is why if we compare the present plan with the Bombay Plan, or the Visveswarayya Plan or even the Gandhian Plan, we find how very little money is allocated for the development of the industries of this country."

As the Government of India took other steps in partial, albeit greatly inadequate, fulfilment of nationalist commitments made in an earlier phase, it found many of its moves being opposed and even thwarted by the indigenous business classes. Thus the legislation on industries introduced in the Constituent Assembly (Legislative) underwent considerable dilution to suit private industry before being enacted as the Industries (Development and Regulation) Act (IDRA) by the

Provisional Parliament in 1951. K.T. Shah and H.V. Kamath who were members of the Select Committee on the Bill noted in their minute of dissent: "The majority seem to us to have been unduly influenced by 'certain strong criticism levelled against this Bill' by obviously interested quarters. They have, therefore, agreed to minimise control, and even to exclude it from the title of the Bill".[32] Even so, the established industrial interests made known their continuing unhappiness with the controls envisaged under the Act. Fundamental objections were raised. The committee of the Bombay Chaber of Commerce recorded:

> "It was the spirit behind the Act which the Committee generally deprecated for many of its claused seemed to be based on the assumption that any controller would make better than industrialists themselves the decison on which the welfare of their own business and their place in the country's economy depended."[33]

The President of the Chambers Mr. C.S. Petit, asserted:

> "Indeed, we might go further and ask whether the whole procedure of licensing new plants is necessary at all... Tooth paste may give the consumber just as much satisfaction as cloth."[34]

This and other conflicts with government on such issues as tax and company laws created a considerable amount of common ground between foreign private capital and domestic industry.

In a speech during the 25th Annual Session of FICCI, on 29th March 1952, the Federation president, C.M. Kothari, hailed the exemptions from the IDRA that had been granted to foreign oil companies and hoped that the same would be extended to Indian enterprise :

> "The Act (the IDRA) was, however, passed without taking note of our suggestions, with the result that even before its provisions could come into force, Government found it necessary to grant exemption from its operation to two foreign oil companies which recently concluded an agreement with the government of India for setting up oil refineries in this country. I am, however, glad that government have shown a bold sense of realism in granting the exemption. I trust that in future similar concessions would be as readily granted to indigenous industry also in suitable cases. But then is it not better to ponder carefully before any legislation is drawn up rather than give exemptions at a later date?
>
> I hope that greater caution would be exercised before the recently published recommendations of the company law committee are embodies into legislation."[35]

The record however shows that in fact there was little for foreign capital to worry about save in certain limited and predictable respects. Indeed, the realisation appears to have gradually dawned on a large section of domestic big business that it could best pursue its interests in tandem with foreign capital. Thus the Eastern Economist, widely regarded as the mouthpiece of the House of Birla, noted in the 'economic review' contained in its Annual Number of 1952[36]: "There has been a remarkable change in the outlook regarding foreign capital". Referring to Prof. Herbert Frankel, it listed the "main deterrents" to foreign capital as being:

"(i) the influence of the so-called Calvo doctrine, which holds that there should be no 'diplomatic interference' in favour of private capital.

(ii) The relatively low yields on equity capital abroad as compared with earnings within the United States.

(iii) Vague fears regarding the future and difficulties regarding income-tax".

It argued that the "decision of the government of India to allow repatriation to dollar areas of foreign capital invested in this country after the 1st January 1950 together with profits now makes it unnecessary to invoke diplomatic aid for the protection of private capital and the Calvo doctrine does not therefore create any difficulty any longer." (Our emphasis). Far from dispelling fears about political and diplomatic intervention, the Eastern Economist thus found solace in the fact that conditions in India were such that this intervention may not be necessary! In an effort to show how propitious conditions in India were for foreign investment it produced statistics to provide "prima facie proof" that "in the case of capital inflow into this country from the dollar area, the difficulty that the return on investments abroad is not comparable to the return on home investments, is largely imaginary". And further, that "in any case, in an underdeveloped country there is not likely to be any lack of opportunities for investment in relatively high income-yielding enterprises."

Yet the enthusiasm for foreign capital was by no means unanimously or consistently shared by all sections of domestic industry. The economic slump after the Korean war, in particular, led to expressions of increasing concern regarding the intrusions of foreign capital. In May 1952 a group of prominent industrialists met the Commerce Minister to raise the question of "competition from foreign industries".[37]

In a widely quoted speech later in the year, the President of the Indian Merchants' Chamber said:

> "A number of foreign-owned undertakings manufacturing consumers' goods requiring no special skills and in spheres in which Indian units had developed and made striking progress, had expanded their production capacity in recent months substantially and to such an extent as to jeopardise not only the future plans of expansion of the corresponding Indian units but even the continuance of their present level of output..."

He went on to ask for "self-contained legislation" on the terms and conditions governing the entry and participation of foreign capital".[38]

There were also isolated attempts such as those of the Tata Oil Mills Company Ltd. (TOMCO) to resist foreign capital in areas where sufficient Indian expertise and knowhow was available. Mr. J.R.D. Tata said at the Annual meeting of TOMCO in August 1953 [39]:

> We have in the industry a powerful unit, forming an integral part of a great worldwide organisation, which had a tight hold over the Indian market over 75 years. With its tremedous resources, it can well afford to dictate prices to the indigenous industry and does so. While it would be unfair on my part to explain away our lower profits this year by reference exclusively to this aspect of our problem, I would be failing in my duty if I did not take this opportunity publicly to support the strong case put to Government by the Indian Soap and Toiletries Makers' Association against grant of the licence applied for by this foreign units for increasing its installed capacity.

However, the attitude of Indian big business towards foreign capital and on the circumstances under which it was to be sought had already begun to waver, although the concern expressed in Mr. Tata's speech continued to be shared by some sections of Indian industry.

The Swadeshi League had been formed to canvass the case of the indigenous soap industry. FICCI also felt obliged to register its Swadeshi credentials. Mr. G.D. Birla had gone along with the Swadeshi resolution which was passed unanimously at FICCI's Annual meeting in March 1953. In its resolution FICCI deplored "the present indifference

to the importance of Swadeshi in social and economic regeneration of the country".[40] It expressed its regret over the fact that "official policies in the sphere of stores purchase or similar arrangements vis-a-vis the use of Indian services like banking, insurance, shipping etc., do not appear to be generally inspired by an insistent desire to stimulate the use of Indian manufactured goods or services."

But the House of Birla appeared nevertheless to equivocate. Mr. Tata's speech at the Annual meeting of TOMCO, for example, was promptly denounced by the Eastern Economist in an editorial on August 21, 1953:

> One would have thought that a foreign company which thus sought out the Indian consumer for its benefactors would receive at least a token gesture of approval. Even if Lever Brothers (India) Ltd. were taking a loss on their Indian business to establish their factories here - which is grotesquely impossible from their balance sheets - it is still obviously in Indian interests to encourage them, provided their activities lead, firstly to more soap production, and secondly to cheaper soap. It is merely to draw the proverbial red herring across the path to condemn an activity which is conclusive to both these ends, merely, because it is big and internationally big business... if, therefore, the Indian Soap and Toiletries Makers' Association is seeking to rouse the country against foreign capital, it has chosen a singularly ineffective illustration to argue its point."[41]

In 1954 the Birlas made a proposal to establish a steel plant with a capacity of 10 lakh tons ingot steel "with foreign assistance, mainly British,[42]. The plant was, as the Estimates Committee of the Lok Sabha noted in 1958-59, to require a capital of Rs. 100 crores of which the Birlas were prepared to contribute only Rs. 10 crores. The Birla proposal was an obvious challenge to the house of Tatas which had so far considered the steel industry as its own domain. (Incidentally, the Committee was informed by the government that the negotiations being conducted by it for the Durgapur plant "were 'in a sense' a continuation of the Birla propoals".) Inter-large house rivalry seems to have had its impact on Indian large industry's attitude towards foreign capital.

Soon enough, and quite possibly mindful of the Birla house's efforts at collaboration with foreign capital, even the house of Tata began to modify its position. This was perhaps because it saw advantages in collaboration with foreign capital particularly since the domestic economic situation had showed improvement. H.N. Tata, for example, modified earlier positions in his message to the annual meeting of the Indian Soap and Toiletries Makers' Association in 1954[43]:

"We have no objection to foreign capital and foreign enterprise, nor are we worried about foreign competition, so long as... (the) foreign section of the industry does not dominate and dictate the price and policy of the indigenous section of the industry by sheer strength of international resources."

By January 1955, the month in which the Congress adopted its famous resolution on the socialistic pattern of society at Avadi, a FICCI panel, which significantly included in it JRD Tata, along with B.M. Birla, A. Ramaswami Mudaliar, Tulsidas Kilachand and Shantilal Mangaldas, was reported to have "generally welcomed the flow of foreign capital into India particularly in those industries which are not pursued by Indian nationals even after due notice by the government, like oil refineries, where there are difficulties of obtaining technical knowhow etc." It also welcomed foreign capital in the consumers' industries like textiles, cement, paper etc. "where India has already established herself."[44]

Meanwhile, the union cabinet committed itself to interpreting the industrial policy resolution of 1948 "in terms of the socialistic objective". In contrast to the success with which business had influenced the final form in which the Industries (Development and Regulation) Act had been enacted, at least the foreign dominated segment of it was conspicuously less successful in respect of the Industries (Development and Regulation) Amendment Bill, 1953. The Bombay Chamber of Commerce, for instance, noted with chagrin that none of its recommendations was accepted.[45] According to the Annual report of the Chamber for the year 1953, "similar protests were submitted by the Associated Chambers, but in spite of these protests and representations the Bill, as it emerged from the Select Committee, was passed by Parliament with slight modifications..."[46] In March 1955 the Mahalanobis plan frame with its emphasis on heavy industry was released. Clearly, political statements such as those at Avadi, that followed an earlier resolution of the AICC at Ajmer in July 1954, which laid down the objectives of a "cooperative commonwealth and a welfare state", the increasing acceptance of the planning idea, as well as the priority being assigned to heavy industry in formulation of the Second Plan, created some apprehension in the minds of both foreign investors and Indian big business. So, too, did the Industrial Policy Resolution

(IPR) of April 30, 1956 which purported to "classify industries into three categories, having regard to the part which the state would play in each of them". The first of these categories consisted of industries enumerated in schedule A, the "future development of which would be the exclusive responsibility of the state".

The second, enumerated in schedule B, comprised industries that would be "progressively state-owned and in which the state will, therefore, generally take the initiative in establishing new undertakings, but in which private enterprise will also be expected to supplement the effort of the state". The remaining industries, comprising the third category, were to be "left to the initiative and enterprise of the private sector."

The World Bank, for example, already upset over the unwillingness shown by the government to accept its proposals on a private bias in the ownership structure of the Rourkela Steel mill, was finally moved to intervene. Its president, Eugene Black, (who was in a few years to become a director of the ITT[47]) in what was till then the boldest intervention by the Bank in Indian policy-making, wrote on September 5, 1956 to the Union minister of finance, T.T. Krishnamachari, saying, *inter alia*:[48]

> "... I should like first to emphasise once again that India's interest lies in giving private enterprise, both Indian and foreign every encouragement to make its maximum contribution to the development of the economy particularly in the industrial field".

Further that the

> "Bank welcomes the arrangements that have been made to associate foreign firms with the construction and operation of a large number of major undertakings, both in the public and the private sectors, but hopes that more positive measures will be taken to facilitate foreign investment..."

And further:

> "We feel that we would have to consider the pace and scale of our further loan operation in India from time to time in the light of economic conditions and prospects and taking into consideration the economic policies pursued by your government."

Yet it is a moot question whether foreign capital was not exhibiting undue alarm. The considerations that had led the Congress to

take the positions that it did at Ajmer and Avadi were, to a large extent, political. In the 1952-53 period the Praja Socialist Party, consisting largely of the erstwhile Congress Socialists, followers of Subhas Chandra Bose and the associates of Acharya Kripalani who had broken away from the Congress to form the Kisan Mazdoor Praja Party, had emerged as a notable force on the political scene. Besides, it had also become necessary to stress that the Congress party had acquired a more progressive outlook in the wake of the controversy over the tenure of Purshottam Das Tandon as Congress President and the political defeat of the Tandon group within the party in 1951.

The record shows that in fact there was little for foreign capital or even Indian big business to worry about regarding the legislative and political events of the fifties, save in a few and predictable respects, e.g. the nationalisation of the Imperial Bank and Life Insurance.

The Industries (Development and Regulation) Act, 1951 contained a not inconsiderable number of escape clauses. For one thing it was difficult to enforce.[49]

The Avadi resolution reassured the private sector that it will continue to have importance and Nehru pointed out that "we have to give it full play within its field".[50] The Industrial Policy Resolution also offered "fair and nondiscriminatory treatment" to both private and public enterprise where they exist in the same industry.[51]

So far as the categorisation of industries with regard to the role of the state was concerned, this was to be repeatedly, if not thoroughly, violated in the years to come.

In fact, western capital even at this time enjoyed several special advantages. For example, there was, by and large, unquestioned faith in western technology in the economic ministries of the government of India. Alternative offers of assistance and technical collaboration in the pharmaceutical industry for one, were repeatedly turned down.[52] Patent laws which involved substantial payments of royalties to foreign firms continued to be doggedly adhered to. This was so even in the case of drugs, where even such countries like Switzerland, Germany, Italy and France have 'abrogated' patents.[53] (This possibility was, favourably

viewed by the Pharmaceutical Enquiry Commission (1953-54) whose report is discussed in a subsequent chapter). Most important of all, the political climate was not unfavourable. The government of India had shown itself amenable, on a number of issues, to foreign nudging and advice. As Kidron has noted, the "government gave some ground to its critics even in the high days of the swing left".[54]

Although the Industrial Credit and Investment Corporation of India (ICICI) had originally been envisaged as a state-owned organisation it was established in January 1955, apparently after the World Bank's intervention, as a private sector organisation with private subscription in the United States, Britain and India.[55] A three-member steering committee of prominent Indian industrialists, namely Mr. A. Ramaswamy Mudaliar, Mr. G.D. Birla and Mr. A.D. Shroff, was set up to discuss with the World Bank the constitution and structure of the ICICI. The first Board of Directors of the ICICI comprised three foreign nationals. Mr. P.S. Beale, Chief Cashier of the Bank of England was appointed the first General Manager of ICICI in January 1955. Among the subscribers of the ICICI's share capital were Chartered Bank of India, Australia and China; Commonwealth Development Finance Company Ltd., Sun Life Insurance Company of Canada in the U.K., Mr. J.D. Rockefeller III and Westinghouse Electrical International in the USA.

Even a nominally private organisation like the Ford Foundation played a crucial role in some of the discussions leading to important economic decisions. Studies prepared by its teams, nominally on matters so seemingly inocuous as the development of the small/scale industry were not only broadly accepted by the union government but also published by it. One of these reports "on small-scale industry" observed:

> "The study team is strongly of the opinion that for lasting industrial growth, private initiative should be encouraged to the fullest. The assumption, too widely held, that government should assist in managerial responsibility, while benefits remain with the manufacturer is not conducive to a sound economic base for industrialization while government initiative, controls and guidance will be needed at the beginning of an industrial development programme, the government should make it clear that it is anxious for the private sector to take the initiative, and firmly intends to withdraw from management control at the earliest possible date".[56]

The Ford Foundation worked in close association also with the planning apparatus. A 'special study group' consisting, apart from members of the Planning Commission staff, of Dr. Douglas Ensminger and Miss Jean Joyce of the Ford Foundation, prepared a publication which was described as "an objective presentation of the principles and aims of the Second Five Year Plan". The document assigned great importance to the role of foreign private capital, expressing the hope that this would enter into 'nation-building industries'.[57] A few months later foreign capital was invited to participate in sectors like heavy chemicals, pharmaceuticals, synthetic oil, heavy machinery, iron and steel, and aircraft manufacturing.[58]

Although Eugene Black's own ultimatum to TTK was nominally rejected by the government it does appear to have made some impression. A foreign exchange crisis had been brewing for sometime and came to a head in 1957-58. The estimated dependence on foreign funds for fulfilment of plan targets had also increased. This can be seen from the table below.[59]

Foreign Aid to India during the first two Plans

	Net aid as percentage of Plan Outlay	
	Public Outlay (1)	Total Outlay (2)
First Plan	18.5	9.5
Second Plan	51.6	31.0

The change in the attitude towards foreign capital becomes apparent by the time of the second plan itself and, of course, was to become especially marked at the time of the formulation of the Third Plan. This could be explained away partly by the requirements of the plans themselves. The First Plan, unlike the Second, did not place emphasis on industrialisation and the capital goods' import requirements were correspondingly higher in the latter.

But the first plan documents show a definite awareness of the implications of excessive foreign reliance which is lacking in subsequent documents:

> "Such (foreign) assistance is, of course, only acceptable if it carries no conditions expressed or implied which might affect even remotely the ability of this country to take an independent line in foreign affairs. The danger must also be recognised of excessive reliance on foreign aid which depends on the domestic political situation in the lending countries and which might be interrupted by unfavourable international developments".[60]

By 1957 or so it was a settled conviction among planners and policy makers that considerable foreign resources would be required to supplement domestic resources, this is brought out even by the Second Plan documents.[61] This feeling continued to be shared throughout the subsequent planning period except nominally for a short while during the formulation of the Fifth Plan.

There were conspicuous attempts on the part of government spokesmen to reinterpret official policy. Thus Mr. T.T. Krishnamachari said in May 1956: "...it is not the government but Indian capital that opposes the participation of foreign capital in Indian enterprise"[62] -- a statement about Indian capital which had, incidentally, become rather questionable by this time. And by December 1956 the government made it known that it would not insist on majority Indian ownership (the '51 per cent' rule).[63]

FOOTNOTES

1. See, for instance, Kidron, Foreign Investment in India, Oxford University Press London, 1965, pp. 65-112.

2. Report of the Economic Programme Committee, 1948, reproduced in A.M. Zaido, and S.G. Zaidi, 'The Foundations of Indian Economic Planning, S. Chand & Co., New Delhi, 1979, pp. 596-650.

3. Industrial Policy Statement, Constituent Assembly (Legislative) Debates, Vol. V, No.1 (6 April, 1948) pp. 3293-3297. The 'basic industries of importance' requiring 'Central regulation and control' were: (1) Salt, (2) Automobiles and tractors, (3) Prime Movers, (4) Electric Engineering, (5) Other heavy machinery, (6) Machine tools, (7) Heavy chemicals, fertilisers and pharmaceuticals and drugs, (8) Electro-chemical industries, (9) Non-ferrous metals, (10) Rubber manufactures, (11) Power and industrial alcohol, (12) Cotton and woollen textiles, (13) Cement, (14) Sugar, (15) Paper and newsprint, (16) Air and sea transport, (17) Minerals, (18) Industries related to defence.

4. Constituent Assembly (Legislative) Debates, vol. V - No.2, (7 April 1948), p. 3417.

5. India, Ministry of Industry and Supply, Conference on Industrial Development in India, Proceedings, Delhi, p. 88.The speech was delivered on December 18, 1947.

6. Reprinted in Jawaharlal Nehru's Speeches, Vol. I, September 1946 - May 1949, The Publications Division, Ministry of Information and Broadcasting, Government of India, New Delhi, November 1958, pp.107-118.

7. See Prime Minister's statement on Foreign Investment, Constituent Assembly (legislative) Debates, Vol. IV, No.1 (6 April, 1949) pp. 2385-6.

8. See Michael Lipton and John Firn, The Erosion of a relationship: India and Britain since 1960, Oxford University Press, London, 1975, p. 88 and p. 258 for a review of the British presence in general insurance till as late as 1971. The authors note also the importance of British interest in banking and the fact that foreign banks were exempted from the nationalisation measures of 1969-70.

9. See Kidron, op. cit., p. 99, citing press reports.

10. See, for instance, S. Gopal, Jawaharlal Nehru: A Biography, Vol.2, 1947-1956, Oxford University Press, Delhi, 1979, p.45. Gopal writes in relation to events of late 1948: "...Nehru was, thanks to some extent to the Soviet attitude, leaning heavily towards the western powers."

11. Sant Lal Singh, Economic Assistance and India's foreign policy, Modern Review, Calcutta, March 1963.

12. India, Constituent Assembly (legislative), Prime Minister's statement on foreign investment, n.7 supra.

13. See also note 30 below.

14. B.T. Ranadive, The Crisis of Indian Economy, People's Publishing House, Bombay, March 1954, p. 233.

15. Eastern Economist, Annual Number, December 30, 1949.

16. India, Parliament debates, Feb. 1, 1950, See speech by Prof. K.T. Shah.

17. Matthew Kust J., Foreign Enterprise in India: Laws & Policies, Oxford University Press, Bombay, 1965, p. 353.

18. Ibid, pp. 353-354.

19. Daniel Spencer L., India : Mixed Enterprise and Western Business, Martinus Nijhoff, The Hague, 1959, p. 152, citing an American Consulate Survey. The ordinance referred to was that limiting dividends of public companies issued in 1949. The conclusions of the Survey have been set out in U.S. Department of Commerce, Office of International Trade, Foreign Participation in Indian Industrial Projects Since India's Independence (Based on a Survey made by Paul Geren, Vice Consul, United States Consulate General, Bombay, and prepared for release by Rollo P. Stovall, Middle East Branch Office of International Trade), March 15, 1950, mimeograph; full citation given in Spencer, op. cit., p.147.

20. Spencer op. cit., pp. 152-153.

21. Idem.

22. For an official statement revealing the close association of the British government and the International Monetary Fund with the devaluation see India, Constituent Assembly (Legislative) Debates, Vol. 5, No.1, (Oct. 5, 1949), pp. 8-22.

23. India, Parliamentary debates (Part II), (22 February, 1950), p. 741,

24. Kidron, op. cit., p.99. According to Kidron p. 99n "India's... refusal to commit herself utterly and militarily to the United States, denied her any gains of substance (i.e. US - authors) until well into the fifties". See also P.J. Eldridge, The Politics of Foreign Aid in India, Vikas, Delhi, 1969, pp. 29-30.

25. Francis Lappe Moore and Joseph Collins, Food First, Beyond the Myth of Scarcity, Houghten Mifflin Company, Boston, (1977) P.328.

26. Eldridge, op. cit, p. 30.

27. India, Parliamentary debates: House of the People, Part II, Vol. VI, No.11, (16 December 1952), Col. 2468.

28. Sir Theodore Gregory, a former economic adviser to the colonial government in India, who undertook the study, made an archetypal comment on behalf of foreign capital in reference to planning: "...India, and other countries in a similar position are not affluent societies. It is, therefore, natural that ideas which now seem out-dated in the more advanced communities should continue to be strongly held in the less advanced, though advancing, communities". See Gregory, Theodore, "India on the eve of the Third Five Year Plan, The Associated Chambers of Commerce of India, Calcutta, 1961, p.223.

29. Report of the Committee of the Bombay Chamber of Commerce for the year 1951.

30. The 'Point Four Programme' was announced by President Truman of the United States in January 1949. The basis for this was that 'technical aid was the chief deficiency experienced by developing countries and that direct capital aid was therefore unnecessary, except to supplement technical aid' and, secondly, that efforts should be concentrated on attracting private foreign capital rather than relying on direct government aid'. See Eldridge, op. cit., pp. 27-28, who refers to the full text in Department of State Bulletin, Superintendent of Documents US Government Printing Office, Washington D.C. Vol. 20, No. 500 (30 January 1949), p. 123.

31. India, Parliamentary debates, House of the People , Part II, op. cit.., n.25 supra, Col. 2465.

32. See: The Parliament of India, the report of the Select Committee on the Industries (Development and Control) Bill 1949 , February 1950, including minutes of dissent.

33. Report of the Committee of the Bombay Chamber of Commerce for the year 1951 .

34. Ibid.

35. Eastern Economist, April 4, 1952. The Committee referred to was the Company Law Committee headed by Mr. C.H. Bhabha. It submitted its report in 1952.

36. Eastern Economist, Annual No., December 26, 1952, pp. 1074-1075.

37. Kidron, op. cit. p. 107, relying on The Hindu, 17 May 1952.

38. Ibid., pp. 107-8.

39. Ranadive, op. cit, pp. 234-235.

40. FICCI, Proceedings of the 26th Annual Meeting, held at New Delhi on the 7th and 8th March 1953, New Delhi, 1953, pp.38-39.

41. Ranadive, op. cit., p. 235.

42. India, Second Lok Sabha, Estimates Committee, 1958-59, Thirty-third report, p. 7.

43. Kidron, op. cit., p. 109 relying on The Hindu, 21 September, 1954.

44. Ibid., pp. 109-110.

45. Report of the Committee of the Bombay Chamber of Commerce for the year 1953, p.53.

46. Idem.

47. See International Telephone and Telegraph Corporation, Annual Report, 1963.

48. Ibid., pp. 153-155.

49. It is significant that as late as 28 years after its enactment the then Union Minister for Petroleum and Chemicals could tell the Lok Sabha that under the IDRA as it stood then (and as it stands now) there was no way by which companies could be penalised for violating conditions imposed at the time of licensing. See also Corporate Studies Group, IIPA, Report on the Functioning of the Industrial Licensing System, 1983, Passim.

50. Kidron, op. cit, p. 132, based on report in AICC Economic Review, 21 January 1955.

51. Industrial Policy Resolution, 1956, reprinted in India, Ministry of Industry, Guidelines for Industries, Part I : Policy and Procedures, Section II, pp.1-5, 1979.

52. Kidron op. cit, pp. 163-164.

53. M. Kidron, Excess Imports of Capital and Technology in the Private Sector, in R.K. Hazari, (ed.) Foreign Collaboration: Report and Proceedings of the Seminar held by the Centre for Advanced Studies, Department of Economics, University of Bombay, 1965; University of Bombay, 1967.

54. Kidron op. cit, p. 140, citing the structure of ICICI and various exemptions and concessions provided to private industry.

55. The aims and objects of the ICICI were explained by the Union Finance Minister to Parliament as follows: "It has an authorised share capital of Rs.25 crores and a subscribed capital of Rs.5 crores. Of the subscribed capital, Rs.3.5 crores have been raised in India, Rs.1 crore in the United Kingdom and Rs. 50 lakhs in the United States of America. The Government of India will make an advance to the Corporation of Rs.7.5 crores... The money for this advance will be found from counterpart funds derived from te proceeds of the sale of steel supplied by the foreign operations administration of the United States under the Indo-American Technical Cooperation Agreement. The Internationl Bank for Reconstruction and Development has authorised a loan to this Corporation of the equivalent in foregn currencies of $ 10 million. This loan will, as is customary with all loans from this Bank, be guaranteed by Government...

The purpose of the Corporation is to assist industrial enterprises within the private sector of industry in India through the provision of finance both in the form of loans and equity participation or through sponsoring and underwriting new issues of shares. It will also help by furnishing managerial, technical and administrative advice and services to Indian industry." (Quoted in Report of the Committee of the Bombay Chamber of Commerce for the year 1955, pp.75-77.)

56. See the report on small industries in India by the International Planning Team of the Ford Foundation (published by the Ministry of Commerce & Industry, 1955) p.2. This report was followed by the report on "Development of Small-scale Industries in India: Prospects, Problems and Policies" submitted by the International Perspective Planning Team sponsored by the Ford Foundation. This report, also accepted by the government, was published by the Union Ministry of Industry in 1963. An interesting sidelight is the question by a member in the Lok Sabha on April 2, 1954: "...may I know in what cottage industries they had experience in America?"

57. India, Planning Commission, The New India: Progress through Democracy, Macmillan, 1958, pp. 148-154.

58. Kidron, op. cit., p. 155, citing the Minister of Planning, Mr. Gulzarilal Nanda's speech to the Colombo Plan Consultative Committee, Singapore, October 1955.

59. Extracted from Birla Institute of Scientific Research, Does Foreign Aid Help? Allied, New Delhi, 1981, p.9.

60. India, Planning Commission. First Five Year Plan, People's Edition, 1953, pp. 34-35.

61. See India, Planning Commission, The New India, Progress Through Democracy, Macmillan, 1958. pp. 148-154.

62. Kidron, op. cit., p. 156, relying on The Hindu, 11 May, 1958.

63. Ibid., p. 158.

CHAPTER IV

AN ERA OF INCREASED LIBERALISATION (1957-67)

For both economic and political reasons the late 'fifties marked the beginning of a new phase in India's external reliance. In 1956-57 when the Indian economy faced an exchange crisis the government decided to "open up". This involved a reduction in the area and coverage of the public sector in favour of the private sector with foreign equity participation.

The increased foreign dependence was explicitly recognised in the formulation of the Third Plan which was pronouncedly dependent on foreign aid. The dependence was, if anything, accentuated by the Sino-Indian war. All this was compounded by the failure of the harvests in 1965-66 and 1966-67. The zenith of the political influence of supra national bodies over economic policies in the country was reached with the decision to devalue the rupee in mid - 1966 and the three-year 'plan holiday' that followed the Third Plan. These troubled times coincided with two succession crises at the Centre, following the death of Jawaharlal Nehru in May 1964 and that of his successor, Lal Bahadur Shastri, in January 1966. This phase culminated with the electoral setback to the Congress in 1967. The phase is marked by the increased presence of supra-national bodies like the World Bank and the International Monetary Fund which pleaded for fewer controls. Foreign governments like that of the United States also assumed a higher profile in their support for foreign companies in India. The politics of the multinational companies found other avenues for expression as well. Business associations like ASSOCHAM, in which foreign controlled companies were dominant, took advantage of the situation created by the foreign exchange crisis of 1956-57 and the general tightness in the exchange situation that continued almost throughout this period to plead for liberalisation of controls. For example, the resolution passed at the Annual General meeting of Associated Chambers in December 1958 read as follows:

> The Associated Chambers of Commerce desire to welcome the generous measure of financial assistance recently negotiated with the World Bank and with certain friendly countries. This assistance does much to resolve India's immediate problems of foreign exchange; and the chambers consider that the Government of India, in order to consolidate this temporary relief and to achieve a more permanent and stable balance in the country's international trade should--
>
> (1) re-assess economic resources, both now and at the end of the second plan, in order to determine the targets which can be achieved within these resources;
>
> (2) adopt taxation and allied policies which will create conditions favourable to private foreign investment and thus develop the country's economic potentialities, while tightening the burden of the servicing and repayment of foreign loans.[1]

The local industrialists had also gradually softened their opposition to foreign private capital and began asking for more liberal policies. One reason for this was the obvious bias in government policy itself. As the Industrial Licensing Policy Inquiry Committee observed in 1969 the "craze for foreign collaborations with equity participation and foreign credits made it difficult in some cases for genuine Indian parties to establish themselves."[2]

The civil servants charged with implementing industrial and other economic policies -- most of them belonging to the old Indian Civil Service -- had a ready prescription for dealing with the new environment. This was that controls be reduced and that the economy would then start looking up. Many of these civil servants had established personal links with leading industrialists and reflected their views almost in their entirety.

The dominant philosophy of the civil servants is fully reflected in the reports of the Swaminathan Committee (the Industrial Development Procedures Committee) which are considered in detail below. Such attempts on the part of civil servants became more pronounced after the political changes at the Centre following the death of Jawaharlal Nehru.

The planning process, based as it was on soft choices rather than hard decisons, depended greatly on foreign loans, aid and investments. Since the United States and other Western nations with private oriented economies were the primary source of such resources, it automatically followed that these nations would seek to impose their conditions and seek compliance with their natural political and economic predilections. There was thus almost a built-in mechanism for the dismantling of the

planning apparatus in India This is in fact, what happened. The most dramatic manifestations of this were the reduction in the scale of the Fourth Five Year Plan and the delay in the very implementation of the plan itself.

The heavy planned dependence of the Third Plan on external assistance can be seen from the fact that while the exchange outgo on account of imports during the Plan period was estimated at Rs. 5,750 crores, external assistance was expected to be forthcoming to the tune of Rs. 2,600 crores. It was more or less taken for granted that the imports would be financed to the extent of nearly fifty per cent through external assistance since the draft on foreign exchange reserves was assumed to be nil.

TABLE 1

Balance of payments estimates for the Third Plan as indicated in the Third Plan Document

	(Rs. Crores)
A. Receipts	
1. Exports	3,700
2. Invisibles (net) (excluding official donations)	Nil
3. Capital transactions (net) (excluding receipts of official loans and private foreign investment)	550
4. External Assistance	2,600
5. Draft on Foreign Exchange reserves	Nil
Total 1 to 5*	5,750
B. Payments	
1. Imports of machinery and equipment for Plan Projects	1,900
2. Components, intermediate products etc. for raising production of capital goods.	200
3. Maintenance imports	3,650
Total 1 to 3*	5,750

* P.L. 480 imports are excluded from both sides -- about Rs. 600 crores for the Third Plan period.

Source: India, Planning Commission The Third Plan Mid-term Appraisal Manager of Publications, Delhi, 1963, p. 41.

During the 1957-1967 period with the government moving towards greater liberalisation of industrial policy, the resolutions and commitments made in the earlier years often became an embarrassment to the government which nevertheless continued to maintain that its policies were well within the framework set out in the fifties. The claim was facilitated by the fact that the policy statements of the earlier period had been rather loosely drafted. The resolution was nevertheless a bit of an embarrasment because it provided a framework which the opponents of some of the liberalisation measures could also utilise to show that the government was shifting ground. We have already dealt, in Chapter II, with the manner in which sectors reserved for the public sector, or sectors in which the public sector was generally expected to start the new units were gradually thrown open to the private sector, often with foreign equity participation. That there was a method in this process of 'opening up' is clear from the circumstances in which the negotiations surrounding the establishment of certain aluminium projects in the fifties were conducted.

The Industrial Adviser of the Government, Dr. Nagaraja Rao, noted that there was a move, in this connection, "to evolve a picture of the specific industries which could be thrown open for development in the private sector even among those which have been included in the Schedule 'A' and Schedule'B' of the Industrial Policy Resolution"[3] This involved a concerted across-the board change in attitude. Foreign capital was invited to invest in fields which had hitherto been reserved for the state, including drugs, aluminium, heavy electrical equipment, fertilisers and synthetic rubber.[4]

The Industrial Licensing Policy Inquiry Committee found in 1969, for example, that in the case of electric motors, General Electric, a foreign company, along with some Indian companies was allowed to make motors up to 450 HP. This was in spite of the fact that this item had been included in Schedule A of IPR, 1956 a public sector unit was already in the field and nine medium scale applicants had been turned away "on grounds of no scope. etc.".[5]

More than 30 per cent of the capacity licensed for the eight end products considered as fertilisers -- an item listed in Schedule B of

the IPR 1956 -- were cornered by 3 foreign companies - Rallis (18 per cent), Parry (8.5 per cent) and ICI (6.7 per cent). And the break-up was such that Rallis and Parry were allowed an overall dominance in superphosphates (67 per cent) and ammonium phosphate (68 per cent) respectively.[6] There were several instances of licences being issued to foreign companies or their applications approved when the item in question was on the banned list. These include Carbon Black (Philip Carbon Black) Pthalic Anhydride (Suhrid Geigy), Radio receivers (Philips), Thermo Plastic clousers (Metal Box), General Lighting Service Lamps (Universal Lamps Bajaj, Philips and ELMI-- a consortium of foreign concerns).

In fact ILPIC found occasion to point out that there was a "very close relationship between the lifting of the ban and consideration and grant of licences to particular parties".[7] Examples include, Zinc Strips (Union Carbide) Dry Cell Batteries (Union Carbide) and Biscuits (Britannia). In the last two cases the ban was reimposed immediately after the parties concerned had been granted a licence. There was also the much publicised case of the licence granted to Ceat for the production of automobile tyres in June 1957. The capacity permitted under this licence was doubled a decade later without reference to the Licensing Committee.[8] The Industrial Licensing Policy Inquiry Committee found in 1969 that with " the foreign exchange difficulties faced since 1957 and resulting restrictions regarding capital goods imports, etc, Government many times favoured parties who would themselves be in a position to negotiate with foreign institutions and ensure the availability of long-term credits as well as equity participation which would cover the foreign exchange payments required for setting up a project."[9] Examples are provided by the collaboration between Hindustan Motors (Birla) and General Motors in the case of earth moving equipment, the Zuari Agro Chemicals (Goa) fertiliser project (also Birla) in which U.S Steel Corporation is the collaborator and between Hindustan Motors and M.A.N. for making cranes. The government was at much pains to explain that the real opposition to foreign capital in the country came not from itself but from India capital.[10]

Taking the criterion that five or more collaborations for the same product category indicates excessive repetition, ILPIC found that such repetition definitely existed in respect of collaborations for 102 product categories of the 363 categories studied by it for the period 1956-1965.[11]

It found, for example that though the government had collaboration agreements with concerns in the case of earth moving machinery, Hindustan Motors was permitted to enter into collaboration with General Motors for the same item. Likewise, the Report provides evidence on varying terms of collaboration for similar products even from the same sources which would have affected the country's bargaining capacity.

There was also a problem of collaboration for non-essential items between 1956 and 1965. A number of products in the case of which ILPIC found no justification for foreign collaboration include loud speakers, toys, sports goods, spectacle hinges, snap fasteners, ball point pens, vacuum flasks, crockery, lipsticks and other cosmetics, toothpaste and ready made garments. In fact, there were repetitive collaborations in the case of many of these items.[12]

The government has also approved foreign collaboration in areas where the production line has already been established in India. Sewing machine components were being produced by a party which had collaboration with Singers and approval had also been given to a collaboration of T.V.S. Iyengar with Singers. It noted that this could affect the small-scale industry even though the licence was for components and not for machines.[13] Besides many of the components were already being manufactured here. (The industry was delicenced in December 1966 along with some others). It has been noticed that favourable terms were sometimes given to foreign collaborataors in order to attract the more influential among them. ILPIC cites instances of what it describes as "special advantages that proved illusory" e.g. certain special advantages that were cited in favour of particular parties at the time of granting a licence but which were later not fulfilled. Similarly, an export obligation was placed on Philips (when its application for substantial expansion of radio set capacity, then on the banned list, was granted in 1962.) But for some unexplained reason

this fact was not mentioned in the licence actually granted to it and the company utilised this as an excuse for not meeting the obligation.[14] This change in gear had a clearly damaging effect on the public sector. The Hindustan Organic Chemicals (HOC) (public sector) set up 1960, for example, had intended to produce anthraquinone, an item which is of importance in defence programmes.[15] Negotiations to establish the public sector unit for the production of primary intermediates for dyestuffs had been started in the fifties, and three foreign firms -- ACMA of Italy, ICI of U.K. and Bayer of West Germany were contacted. ICI did not show any interest at all. While talks between HOC and the possible foreign collaborators were still in progress a licence for the manufacture of anthraquinone was issued to Indian Dyestuff Industries of the Mafatlal Group. This group was in collaboration with ACMA of Italy. This created difficulties for HOC in finding a collaborator on suitable terms and in 1967 anthraquinone had to be left out of the production programme of HOC.

Similarly, ICI got away at this time by playing an obstructive role in the proposed manufacture of reactive dyes by Amar Dye Chem Ltd a company with a minimal 10 per cent foreign capital in 1960.[16]

Amar Dye applied for a licence for this purpose on May 17, 1960. This involved import substitution and the proposal, incidentally, entailed no import of plant and machinery. The company received a licence in the following year, but could not undertake production early on account of difficulties about getting patents. Ultimately in 1964, the company informed the government that it had obtained five patents of which three had been unsuccessfully contested by ICI. (U.K.)

Meanwhile Chemicals & Fibres of India Ltd. an ICI controlled company had applied for a licence to manufacture certain reactive dyes (a year after a licence had been issued to Amar Dye) and obtained a letter of intent at the end of 1962. A collaboration agreement entered into between ICI (U.K) and Chemicals & Fibres of India Ltd. was also approved in 1964. Nevertheless, some disagreements on the terms persisted. A few months later Chemicals & Fibres of India applied to the government to have the letter of intent issued in its name transferred to Atic Industries Ltd (a company owned by I.C.I., U.K. and

by Atul Products Ltd. to the extent of 50 per cent each). Even this was conceded by the government on the ground that the scheme was likely to fructify sooner in the hands of Atic Industries. Although the matter concerned the Department of Chemicals, ICI officials had direct access to and contacted top officials of the Ministry of Industry and the Department of Economic Affairs in their efforts to get the scheme through. On a visit abroad G.D. Birla also assured his audience that the Indian government had a receptive attitude toward foreign capital.[17] The Indian government gave evidence of a change in its attitude at this juncture also by retracting on the earlier insistence on majority Indian participation.

Besides, several tax concessions of specific interest to foreign enterprise were announced during this period. Till then tax laws had not intentionally discriminated between Indian and foreign enterprises. As Kust points out, if any difference in impact ensued it was till then the result of other factors.[18] But concessions were now given which were of direct benefit to the latter. For example in 1957 tax exemption was given to interest on foreign loans/credits to such industrial undertakings in the country as were approved by the Central Government. These loans were also to be exempt from wealth tax.[19] In addition, the supertax on dividends and the wealth tax on companies were done away with in 1960 and 1961 allaying fears that had arisen following the submission in the late fifties of a couple of reports on tax reform.[20] The Finance Act of 1961 also brought about a reduction in the taxes on royalties received by foreign collaborators and the dividends paid by Indian companies to foreign ones. The tax exemptions for "foreign technicians" were also increased in scope in the new Income-Tax Act of 1961.[21] The processing of foreign investments was further streamlined in April 1960.[22] All these changes were reflective of the new atmosphere.

A year later the possibility of inviting foreign firms even in industries enumerated in Schedule A of the Industrial Policy Resolution of 1956 was reiterated.[23] As we show later in this chapter the total foreign investment in the country rose considerably during this period. Moreover, its sectoral composition changed sharply in favour of what might be called the 'commanding heights' of the economy.

The change in approach was conspicuous enough from 1957 itself and persuaded the World Bank to assist by arranging a loan of around $ 600 million. An 'Aid India Club' was also formed in August 1958, consisting initially of the World Bank, the United States, Britain, Japan and Canada.

Western governments were quite clearly appreciative of the new climate. The West German Minister for Economic Affairs said in October 1958 that "given a 51 per cent share in capital and management" (a concession that had already been wrested from the government), "capitalists would be prepared to come to India in preference to other countries particularly in medium-sized industries".[24] The Americans too had a favourable assessment. The Vice-President of the First National Bank of Boston was quoted as having said: "Now is the time for American firms to move in. There is ample opportunity for making money there. You get virtually a free ride on your capital for the first five years of a company's operation".[25] Yet the pressure for still further 'opening up' of the economy was kept up on the Indian government throughout this period. Averell Harriman, on a visit to India, pointedly asked for greater tax reliefs to foreign investors.[26] A World Bank mission canvassed for concessions in the country's policy on oil. It argued:

> The policy pursued by the Indian government over the past few years of excluding private capital from further investment in oil and refining has added very considerably to the immediate pressure on India's foreign exchange resources. A change in this policy could free significant amounts of foreign exchange for other uses during the Third Plan by attracting additional foreign capital into the oil industry.[27]

Planning was clearly a phenomenon that foreign capital had not been able entirely to digest. The campaign against it continued. The Associated Chambers of Commerce and Industry (ASSOCHAM), an organisation dominated by foreign capital, commissioned, on the eve of the Third Plan, Sir Theodore Gregory, who had been Economic Adviser of the British regime in India between 1938 and 1946, to undertake a study on Indian planning.[28] It was perhaps understandable that the priority given to heavy industry should be particularly irksome to foreign capital. While this is true even now it was even more true at the height of the East-West Cold War. These sensitivities are fully reflected in the Gregory Report.

Sir Theodore argued: "It is not certain, but it is highly possible, that the decision to expand the steel industry to the extent that was finally decided by Government, represented an over investment in one particular direction".[29] Sir Theodore warned:

> In so far as a country needs capital, and in so far as foreign skills and business enterprise and expertise can, just as capital can, help to build up the economy of a country, discrimination against foreign capital and foreign enterprise brings its own punishment with it.
>
> ...the attitude of international institutions and of governments is, in part at least, influenced by the attitude taken up by recipients, or would-be recipients towards foreign private capital and foreign enterprise. International institutions, such as the World Bank, are not sovereign bodies, and they derive their funds from governments which, for the greater part, are subject to public opinion. Directly in the second case, and indirectly, in the first, pressure can be brought to bear to divert funds to those areas whose attitude insofar as the treatment of private capital and private enterprise are concerned, accords with what is regarded as the desirable one.[30]

He sought certain assurances: What is to be feared at the moment is not the threat of further general nationalisation but the doctrinaire use of existing powers by the state.[31]

The intent and purpose of international financial institutions could not have been put more emphatically.

That external advice played a major role in the formulation of the Third Plan which, as we have noted above was even more explicitly dependent on foreign aid than earlier plans had been has been noted widely. For instance, Eldridge observes: "... the advice of noted economists such as W. Rostow, M. Millikan and J.K. Galbraith was frequently sought. When these men became key advisers of President Kennedy, they were in a good position to act in a liaison capacity and clearly had some influence on the shape and size of the Third Plan, particularly with regard to estimating its foreign exchange component."[32] External pressure was marked also in regard to the inter-industry priorities and the degree to which fresh investment in particular fields was to be undertaken by the state.

This is well documented in the case of fertilisers. It was observed at this time that:

"...American influences have not been slow in pressing for a big share in this programme for the private sector. Thus the US Development Loan Fund authorities are known to have politely, but firmly, told the Indian government that its providing the foreign exchange for the public sector plant at Trombay will be conditional on New Delhi's readiness to clear the way for Indo-US collaboration in the private sector in setting up a number of fertiliser plants in different parts of the country. The American state department, through Ambassador Bunker, lent its weight to the DLF's demands. The Ford Foundation also served as a instrument in the achievement of this purpose.[33]

Pressure was also brought to bear upon the government to revise its price policy on fertilisers. This was in order to ensure a "fair profit return" to the "foreign (US) private capital to be invested in fertiliser production in the country". This led to the acceptance by the Indian government of the "principle" that the public sector would have to compete with private enterprise in respect of fertlisers.[34]

With foreign capital thus insisting on a clear trade-off between its "assistance" and the modification of economic policies, definite changes soon followed.

An important shift in industrial policy was signalled in May 1961 with the listing of specific areas where foreign capital would be especially welcome. An 'illustrative' list was prepared of 26 industries in which the government of India would "ordinarily" be willing to consider private foreign capital in joint ventures.[35]. This included:

(1) iron and steel structurals, (2) iron and steel castings and forgings, (3) iron and steel pipes, (4) special steels, (5) non-ferrous metals and alloys, (6) boilers and steam generating plants, (7) equipment for transmission and distribution of electricity, (8) furnaces, (9) marine diesel engines, (10) industrial machinery, including major items of specialised equipment used in specific industries, and general items of machinery used in several industries such as equipment required for various units process, (11) ball, roller, and taper bearings, (12) speed reduction units, (13) machine tools, (14)tractors, earth-moving and construction machinery, (15) plastics, (16) industrial and scientific instruments, (17) fertilisers, (18) organic chemicals, (19) fine chemicals and intermediates, (20) industrial explosives, (21) industrial gases, (22) agricultural chemicals such as insecticides, (23) dyestuffs and drugs including the production of basic intermediates, (24) newsprint, (25) pulp and (26) hotels.

Many of these items were identical with or overlapped with items included in Schedules A and B of the Industrial Policy Resolution of 1956.[36]

Not many would dispute the fact that the more crucial areas would also require greater inputs of advanced technology. But instead of conceiving of this technology as being procured through purchase of know how etc., the May 1961 statement opened the way for financial participation in and thus foreign control of the commanding heights of the economy. This thus involved a definite retreat from the positions taken five years earlier. That it was a conscious retreat is clear from the laboured manner in which the government sought to argue that its policy was still within the letter of the Industrial Policy Resolution. It argued in its press note: "Private Capital, foreign or Indian, as a rule, is not being allowed in the industries listed in Schedule 'A' of the Industrial Policy Resoultion of 1956. In special circumstances, however, exceptions may be made where, after full consideration, this is found to be in the public interest".[37] A list was also prepared of areas where foreign capital was not required. This included banking, insurance, trading and commercial activities and plantations.[38] Obviously, this did not involve much restriction since foreign capital was already dominant in or at least had considerable leverage in these areas. In fact, more than a year after this it was stated by the deputy finance minister in the Lok Sabha that as many as 85 foreign insurance companies continued to operate in India.[39]

The change in industrial policies from 1957-58 onwards was quite marked. The Industrial Policy resolution for 1956 had been based on the assumption that the state must have direct responsibility for "basic industrial development" since, as Kust put it, "neither Indian or foreign private enterprises are both willing and able to marshal the large-scale resources for the purpose".[40] The note on the role of foreign private investment issued on May 8, 1961 was superficially similar to the April 1949 Statement. But it put forward a slightly different criteria for determining the areas where foreign enterprise would be allowed.

> Basically, the policy regarding foreign investments would be to attract private foreign capital in those fields in which the country needs to develop in pursuance of the plan targets. While government have been generally encouraging the investment of private foreign capital in the country, it is to be recognised that this has necessarily to be on a selective basis.

> If any project is approved for development in the private sector and, if imported plant and machinery are required, foreign capital investment would ordinarily be welcome as a form of financing the project.
>
> While Indian majority holding would be generally welcome, the ratio of foreign capital to Indian capital in joint venture enterprises, the extent of foreign share holding that is to be permitted in any case etc. have necessarily to be judged on merits. This judgement is made after evaluating the technical skills offered and after merging the requirements of foreign exchange for the purchase of equipment from abroad and the desire of Indian collaborators to play an effective part in the company's management.[41] (our emphasis)

Since the theme now was to attract foreign capital into areas requiring to be developed under the plan, it involved a possible conflict with certain aspects of the industrial policy resolution of 1956. Take the case of 'industrial machinery'. The Third Plan, along with the Second, placed special emphasis on production of "industrial machinery". Under the terms of the Statement of May 8, 1961 this field could have been opened to foreign capital. But this was not the intention as set out in the 1956 resolution. The implications of the new policy were not lost on observers at the time.

The Eastern Economist viewed the government's statement as a step in the right direction, albeit belated.[42] It felt that the change in gear would have been made "with considerable advantage towards the middle of the Second Five Year Plan, when acute difficulties of foreign exchange put a brake on the progress of several private programmes of expansion..." The journal, which is worth quoting at some length, agreed that a new climate for foreign investment was in the process of being created and was quick to notice that the list specifying areas where private capital from abroad would be welcome opened up vast areas to the foreign investor:

> The enumeration of industries made in the statement to indicate the spheres in which foreign investment is welcome ostensibly includes two dozen industries, but some of them are omnibus clauses covering several industries. Care has been taken to stress that this list by no means exhausts the scope for foreign private investment; it is merely illustrative. In fact, the emphasis on flexibility has been amplified with reference to Schedule A of the Industrial Policy Statement of April 1956 which defines the field earmarked for the public sector and it has been pointed out that private participation in this area is permitted where public interest demands it (our emphasis).

Nor did the purely nominal nature of the list specifying areas, where foreign capital may not "ordinarily" be required go unnoticed. The journal commented:

> Most of the industries mentioned as belonging to the category in which foreign capital may not be required ordinarily, are those from which it is being repatriated - for instance, plantations, - or those where foreign capital is consolidating its position rather than expanding it.

The conceptual basis for the invitation issued to foreign capital a decade later (under the February 1973 policy) to participate in the development of the so-called 'core sector' had thus been formulated by this time. It was seen, for instance, that the incidence of tax on foreign capital coming in after April 1, 1961 was the lowest in the so-called industries included in the First Schedule of the Industries (Development & Regulation) Act.[43] The seeds of the philosophy that seeks to rely on foreign financial participation for the development of the 'core sector' can thus be traced to this period. Instead of the development of this sector being envisaged with an emphasis on transfer of technology attention was continually directed to foreign financial paticipation.

There was now a distinct change in the ambience. The Economic Weekly observed: "The feeling is getting a strong hold in the minds of Indian businessmen that the road to Delhi is via Tokyo, New York, Bonn and London. In other words, a technical collaboration agreement has more or less become a pre-requisite for getting a licence from the Development Wing for starting any industry in the country."[44] According to official information released at the time the government approved 381 agreements in 1960 between Indian businessmen and foreign maufacturers as against the 154 such approvals given in 1959 and 64 in the previous year.[45] Though the number of agreements by itself may not mean much in economic terms, it serves as a useful barometer of the new mood.

There were indications of western awareness that a new relationship was being forged at the political level. The managing director of the Development Loan Fund, for example, said in his testimony before an Appropriations sub-committee of the US house of representatives: "I think it is wrong to make our loans just for big fertiliser plants, steel plants and so forth. Those are needed and those are good, but you

cannot teach people about freedom unless they have property. One of the great freedoms we have is the right to own property. I think we have an obligation to the middle class".[46] This then was the political and ideological foundation of the relationship that was being sought and built.

This relationship was further strengthened after the Sino-Indian war of 1962. It was at least in conformity with the requirements of this growing relationship, if not actually because of it, that there followed a general relaxation in industrial controls. Price and distribution controls on a number of commodities were lifted at this time. The Industries Development Procedures Committee was appointed soon after under the chairmanship of Mr. T. Swaminathan, Additional Secretary, Department of Technical Development, "to review the operation of controls applicable to the establishment of additional industrial capacity under the Industries (Development and Regulation) Act, the import of capital goods, the issue of capital, foreign investment and collaboration and to suggest modifications as would reduce delays in decision".[47] In its report the committee ostensibly sought quicker clearances. But it also suggested the raising of exemption limits and the delicensing of a number of industries. Thus although the committee was meant only to deal with procedure it made substantial liberalisations. The intent and purpose of the Committee was reflected in its composition. Apart from T. Swaminathan, who was Chairman, the Committee had as its members, Bharat Ram, A.R. Foster, Lakshmipat Singhania, A.M.M. Murugappa Chettiar, P. Chenstal Rao, H.C. Srivastava, P. Govindan Nair, V.K. Ramaswami and K.J. George, who served as member-secretary.

The panel thus consisted of an equal number of officials and representatives of industry. The committee submitted an interim report in December 1963 and a final report in March 1964. The government's decisions following the submission of these reports were announced in January and June 1964. In its interim report committee identified 22 "key" industries in the case of which there would be a special procedure for expeditious disposal of applications. These included many items listed in Schedules A and B of the Industrial Policy Resolution of

1956.[48] The list was drawn up keeping in view the plan shortfalls and "the need for speedily establishing additional capacity in certain important industries for our industrial development..."[49]

Thus the tendency reflected in the May 1961 statement became more marked: the principles of the Industrial Policy Resolution of 1956 could now be superseded in the name of "attaining plan targets". How the question of meeting quantitative production targets could be resolved merely by a relative reduction in the role of the state was not explained although the committee's reports rested on an unstated assumption that this would be the case. Clearly, an assumption of this nature militated against the very rationale of an economy in which the state was to play a commanding role in economic development.

The fact that stands out in an examination of the changing patterns of India's reliance on external resources in this period is the enhanced role of foreign capital in the "lead sector", or what we have also described as the "growth points" within the manufacturing sector in the Indian economy. This is borne out by the table given below: This data shows the growth of foreign capital in capital goods and thus its control over the 'commanding heights' of the economy.[50]

The increased role of foreign private capital can be gauged if we relate the inflow of private capital to capital formation in the private corporate sector. It has been estimated that private foreign capital financed about 29 per cent of fixed investment in the private corporate sector during 1948-53 and that this proportion rose to 32 per cent in 1960-61.[51] It was observed also that the earnings ratio on total U.S. business investments in India increased from 8.8 in 1960 to 13.2 in 1962 period from 11.5 in 1960 to 10-9 in 1962. U.S. investments in the manufacturing sector in India had a still higher earnings ratio-19.2 and 20.6 in 1961 and 1962 as compared with 10.2 and 12.6 in West Europe in the years under reference. Similarly, U.K. direct investment in India had a return of 9.4 per cent in 1962 compared with 3.5 in Pakistan 8.2 Western Europe and 7.1 per cent in North America.[52]

TABLE 2

Private Sector$: Outstanding Foreign Business Investments in Manufacturing$$ in India

(Rs. Millions)

Items	End of June 1948		End of Dec. 1958		End of March 1967$$$		Percentage Increase 1948-1967
(1)	(2)		(3)		(4)		(5)
	(a)	(b)	(a)	(b)	(a)	(b)	
1. Food Beverages etc.	101	14.3	304	14.1	406	6.4	302
2. Textile products	280	39.6	211	9.8	521	8.30	86
3. Transport equipment	10	1.4	57	2.7	657	10.40	6470
4. Machinery and machine tools	12	1.7	59	2.7	363	5.75	2,925
5. Metals and metal products	80	11.3	760	35.4	1,166	18.50	1,358
6. Electrical goods and machinery	48	6.8	171	8.0	521	8.25	985
7. Chemicals and allied products	80	11.3	259	12.0	1,838	29.1	2,198
8. Miscellaneous	96	13.6	328	15.3	837	13.3	772
Total Manufacturing	707	100.0	2,149	100.0	6,309	100.0	792
Total (all industry groups)	2,646		5,625		12,306		365

$ Excludes banking and insurance.
$$ Book value of investments.
$$$ At the pre-devaluation rate.

Source: RBI Bulletin, August 1969, p. 1150. (for columns 2a, 3a and 4a). The choice of years is the same as in Chattopadhyay, P. cited, in n. 50.

Note: 1. Sub category 'a' stands for the absolute figures in Rs. millions.

2. Sub category 'b' stands for the percentage of the each sector to the total manufacturing.

To understand this phenomenon it may be educative to examine the Swaminanthan Committees recommendations in some detail. The 22 industries listed as "key" industries by the Swaminanthan Committee in its interim report were:

> (1) Pig Iron, (2) Alloy steel, (3) Ferro-chrome and other Ferro-Alloys except Ferro-Manganese and Ferro-Silicon, (4) Malleable Iron Castings, (5) Steel Castings, (6)Steel Forgings, (7) Structurals (Heavy), (8) Industrial Machinery,(9) Cranes, (10) Machine tools including Small Tools, Dies, Jigs, and Fixtures, (11) Automobile ancillaries, (12) Coated abrasives, (13) Electric Winding Wires, (14) Fertilizers, (15) Sulphuric Acid, (16) Caustic Soda and Soda Ash, (17) Rubber Chemicals, (18) Petro-chemicals including Synthetic Rubber, (19) Pesticides, (20) Paper and Paper Board, (21) Cement and (22) Pulp (Cellulosic).

At least 16 of these 22 items had been partially or wholly included in the "illustrative" list of May 1961 comprising areas where foreign capital would be welcome. Thus the Swaminathan committee's recommendations, which were accepted by the government, had obvious implications for foreign capital in India. In its final report, which followed in March 1964, special expeditious procedures were recommended for certain industries other than the "key" industries which were import-saving or substantially export-oriented. It recommended that "though these have not been included in the list of key industries, the accelerated procedures recommended in the interim report should, as far as practicable, be made applicable to them also". The "import saving industries" mentioned in a supplementary list to which such concessions would be given were: industrial chains, transformer oil, insulating paper, high tensile galvanised steel wires, laboratory glassware, detonators and detonating fuse, synthetic fibres, and caproclactum.[53] Again, many of these items had been partially or wholly opened to foreign capital through the May 1961 policy which listed areas open to foreign capital in omnibus terms.

The Swaminathan committee itself recommended that it be reconstituted after a year "with the same composition as far as may be", with a view to study the result of the working of the revised procedures.

As desired by it, the Swaminathan committee was reconstituted on 28 August 1965, with the same chairman. Between the submission of its final report by the earlier Swaminathan Committee and the reconstitution

of that committee, significant changes had taken place on the political scene. Jawaharlal Nehru who had been associated with the Industrial Policy Resolution of 1956 had passed away and there was a discernable increase in the foreign 'pressure'. One of the committee members, Murugappa Chettiar, died soon after the reconstitution of the committee. The remaining members, who signed the final report, were S.L. Kirloskar, H.K.S. Lindsay, Lakshmipat Singhania, P. Chentsal Rao, A. Nagaraje Rao, S.S. Shiralkar, S.S. Marathe and K.J. George, who was member-secretary. The reconstituted committee submitted its final report in 1966, dealing this time with a much broader canvas than it had earlier.

This time the committee recommended, first of all, that three more items be added to the list of 'key industries'.[54] These were: (1) Seamless steel tubes and pipes, (2) Ball and roller bearings above 2-1/2 inches bore and axle box bearing', and (3) Cryolite. Again, at least the first two of these three items had already been covered in the May 1961 list specifying areas where foreign capital would be welcome.

Secondly, the committee sought to lighten the "load of work" on the licensing committee through the relaxing of controls "to the maximum possible extent". It did so even though the committee was, in its own words, "aware that the relaxation of controls is not strictly and directly included in its terms of reference". It recommended that generally "industries which do not involve the import of capital goods or of raw materials" should be exempt from licencing. For this purpose, it set out an "illustrative list" of industries which may be "decontrolled". This is given below:

> (1). <u>Textiles-Cotton</u>. This industry may be exempted from the licensing provisions of the Act where no import of machinery or cotton is involved (eg. in regard to coarse and medium varieties of yarn and cloth not using imported cotton). (2) <u>Sugar</u>. So far as the 'cooperative' sector is concerned the sugar industry may be 'decontrolled' as an experimental measure for a period of 3 years. If, after 3 years it is seen that an adequate number of units have not come up in the 'cooperative' sector, the question of "decontrol" of the entire industry, including joint stock

companies, may be favourably considered. (3) Cement, (4) Paper & Newsprint, (5) Toilet preparations, (6) Fire bricks, (7) Handtools, (8) Plywood, (9) Furniture components and (10) Milk Foods to be 'decontrolled' for 3 years so far as the cooperative sector is concerned. If a sufficient number of units do not come up by then, decontrol of the entire industry should be considered.

The government did not accept the suggestion to delicence cotton textiles, sugar, milk food, toilet preparations and furniture components. But in the pursuit of the policy suggested by the Reconstituted Industries Development Procedures Committee the government took several steps to relax controls successively in May, July and November 1966. The delicensing of eleven industries was announced on May 9 1966.[55] These industries were:

> (1) iron and steel castings and forgings, (2) iron and steel structurals, (3) electric motors upto 10 h.p., (4) pulp, (5) glue and gelatin, (6) glass, (7) power alcohol, (8) solvent extracted oils, (9) fire bricks and furnace linings, (10) cement gypsum, and insulating boards, and (11) timber products.

The Union minister of Industry, Mr. D. Sanjivayya, held out the prospect that more industries would be delicensed later. In accordance with this, two industries were delicensed on July 4 1966.[56] These were: (1) paper and newsprint (2) handtools. These were among the industries whose decontrol had been suggested by the Swaminathan panel.

Ironically, the Swaminathan Committee's recommendations were implemented with such enthusiasm in the backdrop of the findings by the Committee on the Distribution of Income and Levels of Living (1964) which showed that there had been an increase in the concentration of economic power in the private corporate sector during the fifties.[57] The report of the Monopolies Inquiry Commission (1965) also pointed to similar conclusions. But the concessions given in May and July, which could only have increased possibilities for such concentration, were still not considered enough by industry. Capital, a journal considered close to foreign capital, commented on the goverment's non-acceptance of some of the recommendations made by the Swaminathan committee.

> New Delhi's hesitation on the subject perhaps indicates the political pulls to which it is subject while its socialist zeal for controls and regulations has cooled off a little, thanks to the douche of realism administered by the World Bank and the U.S.A., it has not been able to take a bold stand on the issue of decontrol because of political considerations in an election year and leftist pressure from within the Congress and outside... the significance of the (delicensing) lies more in the trend it represents. Halting and half-hearted though the process may be there is a distinct move away from controls and regulations, which have so far bedevilled the economy (Our emphasis)[58].

The journal was in no doubt about where the inspiration for the changes had come from. Lest there be any ambiguity about this, it laboured the point: "these changes in industrial policy are mainly the result of the pressure exerted by the World Bank and other western aid-givers".

Another 29 industries were delicensed in November 1966.[59] These were:

> (1) cast iron spun pipes, (2) steel ingots/billets by electric furnace, (3) non-vehicular internal/combustion engines below 50 h.p., (4) electric motors upto 50 h.p., (5) electric furnaces without import of switchgear and transformer, (6) bicycles and components, (7) tea machinery, (8) power-driven pumps, (9) agricultural sprayers (except manual) (Conventional and Knapsack type with indigenous engines), (10) air and gas compressors upto 6 c.m.c., (11) fire-fighting equipment, (12) coated abrasives, (13) sewing machines and components, (14) weighing machines, (15) mathematica, surveying and drawing instruments, (16) mixed fertilizers, (17) calcium carbonate, (18) barium nitrate, (19) barium carbonate, (20) barium sulphate, (21) barium chloride, (22) blanc fixe, (23) activated bleaching earth, (24) activated carbon (25) metallic stearates, (26) sodium aluminate, (27) paperboard/straw board, (28) paper for packaging (29) hardboard, including fibre boards, chip board, and particle boards.

Since many of these fields, e.g. weighing machines, were already dominated by foreign-controlled enterprises the relaxation meant that these units could expand their hold more or less without restriction. Other relaxations were also announced at this time. Industrial units, "both in the engineering and non-engineering fields" were allowed freely to diversify production upto 25 per cent of their total output without requiring a fresh industrial licence.[60] This was subject to the conditions that no additional plant and machinery should be installed, no foreign exchange expenditure was incurred and that the diversification should not extend to 71 specified industries selected in order to give protection to the small-scale sector.

The criteria adopted by the Swaminathan committee - to restrict licensing to items requiring foreign exchange - ignored indirect foreign exchange requirements and was therefore a crude one.[61] In any case, the acceptance of the committee's recommendations was another nail in the coffin of the cardinal principle that the state should have control over the "commanding heights" of the economy. Among the industries to which foreign capital had been invited in May 1961, and the industries which the Swaminathan committee wished to have, as it put it, "decontrolled", were several that had been listed in Schedules A and B of the the Industrial Policy Resolution.

Industrial licensing was not the only field in which foreign capital or international financial organisations acting on behalf of western nations sought to exert an influence. This period witnessed concerted attempts by these interests to influence the country's agricultural, exchange rate and trade policies as well.

By mid-September 1965 it was clear that the failure of the monsoons would cause a major economic crisis. Agricultural production fell by nearly a fifth between 1964-65 and 1965-66 and prices increased by around 14 per cent. Apart from 1965-66, the following year, 1966-67, also turned out to be a severe drought year. In November 1965, the Union minister for agriculture, Mr. C. Subramaniam, informed the Congress Parliamentary Party that official buffer stocks had been exhausted.[62] At this time, the United States made it clear that "specific aid offers (were) contingent upon the institution of particular adjustments in indigenous rural policy".[63]

Most of the food aid that came to India after the government had carried out the agricultural and other adjustments demanded of it, was offered under the US public law 480. Title I of PL 480 provided for the sale of surplus agricultural commodities for local currencies. A large part of the rupee proceeds of these sales could be used by the US government for its rupee expenditure. In addition, there was provision for these rupees being used to support American and other foreign business in India.[64] A list of enterprises that received loans, often described as Cooley loans, from these funds is appended to this report

(See Annexure 'E'). It is obvious from this list that the enterprises which received these loans were primarily those having foreign, especially American collaborations.

It is no accident that during this phase it was US capital that consolidated its position in India. Investments from that country increased according to RBI figures by Rs. 330 million in 1965-66 and Rs. 620 million in 1966-67. Outstanding US investments increased from Rs. 215 crores at the end of March 1965 to Rs. 310 crores at the end of March 1967. The share of US investments in total investments in India rose from 22 per cent at the end of March 1965 to 25 per cent at the end of March 1967. The accompanying Table shows the changed countrywise composition of foreign investments in India between March 1963 and March 1967.

TABLE 3

Private Sector: Long-term Foreign Business Investment (Country-wise)

(Rs. Crores)

Country	Outstanding investment as at end-March 1963	Outstanding investment as at end-March 1967$$
France	14.3	31.3
Germany (West)	24.2	61.7
Italy	9.6	27.0
Japan	15.2	45.4
U.K.	493.2	587.0
U.S.A.	119.8	309.8
Other	129.8	168.4
Total	806.1	1,230.6

$$ At pre-devaluation rates.

Source: Reserve Bank of India Bulletin, August 1969, p. 1129.

Meanwhile the World Bank had for long been pressurising New Delhi to devalue the rupee. A World Bank-sponsored mission led by Mr. Bernard Bell in 1964 made an explicit demand to this effect. The timing of the World Bank's attempts was itself significant. Nehru had just died. The foreign exchange crisis had been worsening for various reasons. First, the Third Plan was heavily dependent on an 'import surplus' strategy of

growth. Secondly there was a growing burden of remittances of profits made by foreign companies. Tension on the Indo-Pak border increased during the earlier part of 1965 culminating in a major war and the suspension of US aid to India later that year. At this time Mr. Chester Bowles, the US ambassador, and Mr.L.K. Jha, who was secretary to the then Prime Minister, Mr. Lal Bahadur Shastri, were in constant touch over the proposal.[65] The initial soundings on this were firmly rejected by the then Union finance minister, Mr. T.T. Krishnamachari, who adduced strong reasons for not giving in to the request. In a broadcast in July 1965 he pointed out that since the external demand for Indian exports was inelastic, devaluation could be of little help in increasing Indian overseas sales. However, Mr. Krishnamachari had to leave the cabinet at the end of December 1965 on account of this and other differences with Mr. Shastri.

Within a few days, Mr. Shastri died at Tashkent and Mrs. Gandhi, having been elected as the new leader of the Congress Parliamentary Party, assumed office as the new prime minister. How closely the decision in June 1966 to devalue the rupee by 36.5 per cent, making foreign exchange costlier by 57.5 per cent, was thereupon orchestrated by the US and the IMF/World Bank has been documented by Francine Frankel.[66] India's ambassador to the US, Mr. B.K. Nehru, was already in Delhi in early January 1966 expecting to inform Mr. Shastri about the IMF's insistence on devaluation as a precondition for fresh loans. But with a new government, headed by Mrs. Gandhi, now in the saddle, Mr. Nehru conveyed the IMF's ultimatum to the new finance minister, Mr. Sachin Chaudhuri. A committee consisting of Mr. Asoka Mehta, Mr. Chaudhuri and Mr. C. Subramaniam, with Mr. L.K. Jha as "rapporteur", was set up to examine the issue and supported the case for devaluation. The IMF was soon officially informed of the decision to devalue, by the Governor of the Reserve Bank of India. It was months later, only a little before the formal announcement was to be made (and after the quantum of the devaluation had been agreed upon with the IMF) that the matter was discussed with the Congress President and other senior colleagues of the Prime Minister, all of whom opposed the step.[67] But by then the Government of India had already gone too far; the devaluation of the rupee was announced on June 6, 1966.

The then minister of Planning and Social Welfare, Mr. Asoka Mehta, himself summed up the position. Speaking in the Lok Sabha on August 8, 1966 he observed:

> The position is this that we take credits or we obtain credits or we seek credits from Western countries as well as from the East European Countries and the Soviet Union...we have got to discharge our debt obligations, the repayment of the debt as well as of the interest charges, by pushing up our exports and earning the foreign exchange. When these countries (the creditor countries) find that our economy has got into a state where we may not be able to sustain our export, they are entitled to say that they will not be prepared to give us any new credits. In the same way, the World Bank can say that your repayment capacity seems to the becoming difficult. Therefore we do not knows what will happen to the new credits that you want.[68]

Speaking in the lok sabha on July 26, 1966, Surendranath Dwivedy quoted from a document circulated to members of the Congres Working Committee. In it the Prime Minister had said: "The IMF had been advising us for sometime to devalue formally...when there was a pause in aid, the IMF argued still more strongly in favour of de jure devaluation." She went on to say, according to Dwivedy:

> In the light of such concerted advice we had to reckon with the possibility that aid for the fourth plan may not gather momentum unless we are prepared to formalise a situation in regard to the exchange rate which was already developed in practice.

Dwivedy summed up: "No pressure, but advice".[69]

Simultaneously with the devaluation , import duties were reduced. The finance minister argued that dearer imports would lead to greater investment in "import substitution industries", make resource allocation more efficient and render controls that much less necessary.[70] The import policy was therefore liberalised and "fifty nine priority industries, accounting for about eighty per cent of industrial production, were to be granted import licences as and when needed for components, raw materials and spare parts".[71]

Within ten days of this decision the United States announced that it would resume economic aid to India. The belief that there was a link between the IMF/World Bank proposal and the United States gains further credence from the press note issued by the government of India on 21 June 1966. The note specified that the import policy was being liberalised with particular reference to the United States :

> In recent years there has been a large increase in the output of spare parts for various industries. Many of these have, therefore, been banned for import. All the same there is a considerable volume of industrial, earthmoving, construction and other equipment which may not be fully utilised because of a lack of adequate spare parts, which are not made in the country. It is, therefore, proposed to license freely both to actual users and traders the import from the U.S.A. of a wide range of spare parts other than those whose import is banned. The quotas for established importers from other sources are also being raised" (our emphasis).[72]

In fact, even at the time of the Third Plan the country's borrowings from the IMF were rather low. They stood at $ 127.5 million at the beginning of the Third Plan and at $ 325 million around March 1965.[73] The economic and political price paid to obtain these loans must therefore seem exorbitant. Recession, inflation and unemployment followed soon after the devaluation. Even the subsequent decision of the Aid India consortium, under World Bank aegis, to allocate increased aid could not help bail out the Indian economy.[74] Renu Chakravartty summed up the situation so far as the promises of aid, which had been made as an inducement to devaluation, were concerned. Speaking in the Lok Sabha, she observed: "Out of Rs. 900 crores which was promised as non-project aid, only a part of it has come, and even less has been actually disbursed. And what is this Rs. 900 crores. This was meant for the year 1965. What is the aid that was promised to us in 1966 Nothing Yet."[75]

An equally heavy price was paid in terms of the virtual dismantling of the planning apparatus. That the planning process itself was the basic target of foreign capital in general and the IMF/World Bank circles in particular had been made clear on a number of occasions in the past. So far attempts to undermine it had been more or less unsuccessful. But after the devaluation of the rupee in June 1966 this target seemed within easier reach than before. Making a very significant prognosis and without feeling the need to specify where its sympathies lay, Capital commented:

> The Prime Minister may or may not know it, but some of the most vociferous defenders of her devaluation policy are actually running down the idea of long-term economic planning to which the government is committed. What is not spelt out categorically, but is conveyed implicitly, is that if the earlier policies have led to the present situation, why not give up those policies to avoid a further deterioration? The argument has a familiar ring. Now that it has started at the top, it can be expected to percolate down to the lower levels. The fact that such ideas are again being expressed in influential Congress circles is a point worth recording. It may be of considerable significance for the future.[76] (our emphasis)

In the wake of devaluation, ASSOCHAM submitted a memorandum to the government (in July) suggesting that in order to prevent a general rise in prices, imports of raw materials and components should be liberalized in order to raise capacity utilization. It also sought a reduction in import duties.[77] By December, ASSOCHAM was emboldened to set its demands at a higher pitch and to make them explicit. A resolution on economic liberalisation was proposed by the Bombay Chamber of Commerce and Industry at the annual general meeting of ASSOCHAM in December 1966. It stated:

> The Associated Chambers consider that Government should steadily pursue a course of economic liberalisation ... Such a policy of liberalisation, the Chambers consider, requires a phased programme for dismantling the controls over prices, imports, industrial development and capital issues, and it should be accompanied by a simplification and liberalisation of commercial and tax law".[78]

The already delayed draft outline of the fourth five year plan, which had replaced an earlier draft of 1965, was not approved by the Cabinet until August 1966. But the delay had already been quite damaging for the plan. General elections had become due, for one thing. The government decided in effect not to finalise the draft before the elections, due in early 1967. The decline of the planning process can be said to have begun at about this time.

Significantly, the annual general meeting of ASSOCHAM in December 1966 passed a resolution urging that the "plan should be implemented in a highly flexible manner which will permit of adaptation to changing circumstances, new problems and unforeseen needs".[79] It observed also that "very close cooperation between government and the private sector will be necessary in order to create conditions which will enable the private sector successfully to perform the important role assigned to it in the fourth plan".

The political setback to the Congress in 1967 and the strengthening of rightist opposition parties also triggered a dynamics of its own. The fourth plan was not put into operation until 1969, reliance being placed on ad hoc 'annual plans' for the three intervening years. Moreover, in the draft 1969-74 plan that was finally prepared, the public outlay was placed at Rs. 14,398 crores as against Rs. 16,000 crores in the draft outline approved in 1966. This was in spite of the fact that prices had risen by around 30 per cent in the intervening period.[80]

FOOTNOTES

1. Reproduced in Report of the Committee of the Bombay Chamber of Commerce and Industry for the year, 1958, Bombay 1959, pp. 45-46.

2. ILPIC, pp. 137-138.

3. Note obtained privately.

4. Michael Kidron, Foreign Investments in India, Oxford University Press, London, 1965, pp. 158-159.

5. ILPIC, p. 60.

6. ILPIC, p. 61.

7. Government of India, Ministry of Industries, Resolution. Industries Development Procedures Committee, 13 January 1964, printed as Annexure III in India, Ministry of Industries, Report of the Industries Development Procedures Committee, Delhi, 1964, p. 13.

8. ILPIC. p. 66.

9. India, Ministry of Industrial Development, Report of the Industrial Licensng Policy Inquiry Committee, (Main Report) 1969, p. 71.

10. Speech of T.T. Krishnanachari at Calcutta, Hindu 11 May 1958 and quoted in Kidron, op. cit., p. 165.

11. ILPIC, pp. 124-125.

12. Ibid., pp. 130-133.

13. Ibid., p. 116.

14. Ibid., p. 72.

15. The discussion in this paragraph is based partly on personal interviews conducted with persons who dealt with the case in the sixties.

16. Source for information about this case same as above.

17. The Hindu, 13 September 1957 quoted in Kidron, op. cit. p. 158.

18. Mathew J Kust, Foreign Enterprise in India; Laws & Policies Oxford University Press, Bombay, 1965, p. 363.

19. Ibid. See also Income-Tax Act 1922 as amended by Section 3 (iii) of the Finance (No. 2) At, 1957.

20. *Ibid.*, p. 364.

21. *Ibid.*, pp. 364-365.

22. Kidron, *op. cit.*, p. 159.

23. See Government of India, *Press Note*, 8 May 1961, (annexure 'D' in this report).

24. P.J. Eldridge, *The Politics of Foreign Aid in India* Vikas Publications, Delhi 1969, p. 157 relying on *Financial Times* London, 14 October 1958.

25. *Ibid.*, pp. 259-260.

26. *Ibid.*, p. 260n. relying on *The Hindu*, Madras, 1 March 1959.

27. Kidron, *op cit.* p. 172 relying on *Capital*, 8 September 1960. Besides, the Bank was increasingly emboldened to take specific initiatives pertaining to the Indian economy in the face of the government's want to enthusiasm. In 1961, example, it sent a team to study to country's coal transport problems in spite of the governments indifference to these idea as reflected in its refusal to pay the cost of the survey. See Eldridge, op. cit,. p. 230n.

28. See Sir, Theodore Gregory, *India on the Eve of the Third Five Year Plan*, The Associated Chambers of Commerce of India, Calcutta, 1961.

29. Gregory. *op. cit*,. pp. 58-59.

30. *Ibid.*, pp. 213-214.

31. *Ibid.*, p. 161.

32. Eldridge, *op. cit*,. p. 266n.

33. *Economic Weekly*, Bombay, January 7, 1961.

34. *Idem*.

35. R.K. Hazari, (ed.) *Foreign Collaboration*, Report and Proceedings of the Seminar held by the Centre of Advanced Studies, Department of Economics, University of Bombay, 1967, pp. 2-3.

36. See IPR, 1956, in India Ministry of Industry, *Guidelines for Industries*, Part I, Sec. II, pp. 1-5.

37. See policy announcement referred to in *Eastern Economist*, May 12, 1961 cited below. See also the *Press Note* of 8 May 1961 appended to this report. This press note is no longer available in official documents. However, we were able to obtain its text from the *Report of the Committee of the Bombay Chamber of Commerce and Industry For the year* 1961, pp. 184-186.

38. Hazari (ed.) op. cit, p. 3.

39. See written answer of deputy minister of finance in the Lok Sabha August 25, 1962, Lok Sabha secretariat, Lok Sabha Debates, Vol VII, No. 15 August 25, 1962, p. 3899.

40. Kust, op. cit., p. 133.

41. Ibid., p. 142.

42. Eastern Economist, May 12, 1961.

43. Eastern Economist, June 2, 1961.

44. Economic Weekly, May 13, 1961.

45. Idem.

46. Eldridge, op. cit, p. 156.

47. Government of India, Ministry of Industries, Resolution: Industries Development Procedures Committee, 13 January 1964, printed as Annnexure III in India, Ministry of Industry, Final Report of the Industries Development Procedures Committee, Delhi, 1964, p. 13.

48. See Interim Report of Industries Development Procedures Committee, reprinted as Annexure II in the Final Report cited in note 33 supra). Compare IPR categorisation and the industries listed by the Swaminathan Committee.

49. Industries Development Procedures Committee Final Report (n. 33 Supra) Annexure II, p. 10.

50. Paresh Chattopadhayay, "Trends in India's Economic Development," in Kathleen Gough and H.P. Sharma, Imperialism and Revolution in South Asia, Monthly Review Press, New York, 1973.

51. A.C. Bannerjee, "The Foreign Investor in India", Indian and Foreign Review, New Delhi March 1, 1964, Mr. Bannerjee was secretary of the Indian Investment Centre in New Delhi when he wrote this article.

52. Ibid.

53. Industries Development Procedures Committee, Final Report, p. 4.

54. India, Ministry of Industry, Final Report of the reconstituted Industries Development Procedures Committee, mimeograph, n.d. This report has not yet been published.

55. Bhagwati, N. Jagdish & Padma Desai, ,India: Planning for Industrialisation,, Oxford University Press, London, 1970, p. 478.

56. Capital July 14, 1966.

57. India, Planning Commission, Report of the Committee on Distribution of Income and Levels of Living, Part I, February 1964.

58. Capital, July 14, 1966.

59. Bhagwati and Desai, op. cit. p. 479.

60. Capital, November 3, 1966.

61. Bhagwati and Desai, op. cit. p. 478.

62. Frankel, op. cit., pp. 285-286.

63. Frankel, op. cit., p. 286 citing statement by John Lewis the then US AID Chief in New Delhi who in turn is referred to in Pran Chopra, Uncertain India, Cambridge, Mass., 1968, p. 348.

64. See M.K. Saini, Politics of Multinationals, Gitanjali Prakashan, New Delhi, 1981 pp. 271-276.

65. See D.K. Rangnekar, "Crisis Today", Business Standard, 28 August, 1981.

66. Frankel, op. cit, pp. 296 - 298.

67. Ibid., p. 298.

68. Quoted in Estimates Committee (1967-68), Thirtieth Report Fourth Lok Sabha Lok Sabha secretariat, New Delhi, p. 87.

69. Lok Sabha Debates, July 26, 1966, Columns 545-546.

70. Frankel, op. cit, p. 299.

71. idem.

72. Government of India Press Note, 21 June 1966; quoted in Bhagwati and Desai, op. cit, pp. 483-484; Estimates Committee (1967-68) Ninth Report on Industrial Licensing, p. 166.

73. See article by Rangnekar, cited above.

74. Bhagwati and Srinivasan have sought to argue that the price rise that took place in the wake of devaluation was a result of the prevailing drought See J.N. Bhagwati, and T.N. Srinivasan, Foreign Trade Regimes & Economic Development: India, National Bureau of Economic Research, New York, 1975. But there is no attempt in their analysis to consider whether this rise in prices, which to some extent had already taken place by June 1966 and could reasonably have been expected to accelerate, figured at all in official discussions when the decision on devaluation was taken.

75. Lok Sabha Debates November 2, 1966, col. 564.

76. Capital, July 14, 1966.

77. ASSOCHAM, 47th Annual Report, for the year ending October 31, 1966.

78. See ASSOCHAM, 48th Annual Report, for the year ending October 31, 1967.

79. Idem.

80. See plan documents Fourth Five Year Plan: A draft outline, 1966 and Fourth Five Year Plan, 1969-74, Draft, 1969.

CHAPTER V

PERIOD OF FLUX (1967-80)

FERA IS A FAKE
...Hiren Mukherjee
in the Lok Sabha on April 30, 1976.

This chapter is divided into six sections. Section I provides a brief sketch of the increased economic penetration by foreign capital during this period. In Section II we outline the political setting with which this period began and suggest that an examination of this makes it possible to appreciate better some of the seemingly confusing policy shifts that were witnessed during this period.

In Section III we review the evolution of policies towards foreign capital upto the enactment of the Foreign Exchange Regulation Act, and the issue of the guidelines prepared under it. In this section we take account also, wherever appropriate, of the efforts by lobbies acting on behalf of foreign capital to influence policy.

A more detailed examination of the pressure exerted by foreign capital on Indian policies is made in Section IV. This section focusses on foreign business and the policy changes reflected in the Foreign Exchange Regulation Bill, 1972, (which was later enacted and came popularly to be known as FERA), and the guidelines issued under it.

Section V examines the political undercurrents of the policies pursued by government. This is reflected very effectively in the parliamentary debates and in the deliberations of certain parliamentary committees. This discussion reveals also several institutional weaknesses that enabled foreign capital to strengthen its position in the country. These are indicated in the examination of certain aspects of, among other things the working of ministries responsible for the supervision of trade and industrial licensing and of the tax department.

In Section VI the discussion shifts to the general economic liberalisation that accompanied the emergency and, to some extent, continued after it during the "Janata phase", 1977-79.

Section I: Economic Penetration by Foreign Capital : A Brief Sketch

The period 1967-80 witnessed a steady strengthening of the position of foreign companies in the country. We referred in Chapter II to the fact that an appropriate measure of the influence of foreign capital may be obtained if we study its position in the "key sectors". We noted that the large sector, say the largest 100 private companies, can be considered as playing the role of the "key sector". Using this as our framework we find Goyal's study of the share of FERA companies in assets of the large corporate sector in 1967-78 to be of considerable relevance.[1]

Taking the largest 100 private sector companies (in terms of paid-up capital) he found that they had gross assets of Rs. 5942.85 crores in 1977-78. Of these 100 companies, 36 were registered under FERA and had assets worth Rs. 1,838 crores, i.e. 30.9 per cent of the total assets of the 100 companies. Only 93 of the above companies were operating in 1967-68; 33 of these were the companies registered under FERA. The relative share of the FERA companies in the assets of the 93 companies in 1967-68 was 28.06 per cent.

TABLE-1

Share of FERA Companies in Assets of the Large Private Companies during 1967-68 and 1977-78

Assets (in Rs. Crores)

	1977-78	1967-68	Percentage Increase
Indian	4104.67 (69.07)	1950.61 (71.94)	110.43
FERA	1838.18 (30.93)	760.72 (28.06)	141.64
Total	5942.85 (100.00)	2711.33 (100.00)	119.19

Source: Goyal, S.K., Some Aspects of the Operations of Multinational Corporations in India, Indian Institute of Public Administration (mimeograph), December 1980.

The trend towards increased profitability for foreign capital was generally also becoming more marked during this period. An indication of this can be had from Table 2 below based on a Reserve Bank Survey. The gross profits of all foreign subsidiaries increased in absolute terms between 1964 and 1970 in respect of every sector with the exception of services. In the case of companies with minority foreign participation they increased in all sectors except textile products. Taken as percentage of total capital employed also the gross profits rose for both categories of companies. This is clear from Table 3. Generally, the profitability ratios are higher for companies which had majority participation. This was so because of the very high profit rates in manufacturing (15 to 18 per cent) [2]

TABLE - 2

Gross Profits of Subsidiaries and Minority Compaies

(Rs. crores)

	1964-65	1969-70	Change of 2 over 1	1964-65	1969-70	Chage of 5 over 4
	1	2	3	4	5	6
I. Plantations and Mining	3.2	5.9	+ 2.7	—	0.5	+ 0.5
II. Petroleum	11.0	13.2	+ 2.2	7.0	13.6	+ 6.6
III. Manufacturing	91.6	155.5	+63.9	61.0	136.9	+75.9
Foods, Beverages and Tobacco	7.9	16.6	+ 8.7	3.3	2.9	- 0.4
Textile products	1.7	5.0	+ 3.3	4.0	11.1	+ 7.1
Transport equipment	6.7	9.0	+ 2.3	13.0	21.1	+ 8.1
Machinery and machine tools	3.9	6.8	+ 2.9	6.7	17.4	+10.7
Metals and metal products	13.9	14.8	+ 0.9	9.2	21.6	+12.4
Electrical goods and machinery	9.7	18.9	+ 9.2	8.0	13.4	+ 5.4
Chemicals and allied products	32.1	55.5	+23.4	10.5	34.5	+24.0
(i) Basic industrial	7.7	11.0	+ 3.3	6.7	18.9	+12.2
(ii) Medicines and Pharmaceuticals	14.1	26.1	+12.0	3.1	10.3	+ 7.2
(iii) Others	10.3	18.4	+ 8.1	0.7	5.3	+ 4.6
Rubber goods	8.2	19.3	+11.1	2.1	5.8	+ 3.7
Miscellaneous	7.5	9.6	+ 2.1	4.2	9.1	+ 4.9
IV. Services	5.6	6.1	- 0.5	9.5	18.4	+ 8.9
Total (I+II+III)	111.4	179.7	+68.3	77.5	169.4	+91.9

Source: Reserve Bank of India Bulletin, June 1974, p. 1048.

TABLE - 3

Gross Profits as Percentage of Total Capital Employed

(Per cent)

Year	Subsidiaries	Minority Companies
1964-65	16.8	9.5
1965-66	15.7	9.5
1966-67	15.2	8.6
1967-68	14.5	8.3
1968-69	15.8	8.4
1969-70	17.2	9.6
Average for 1964-70	15.9	9.0
Average for 1960-64	15.5	8.5

Source: Reserve Bank of India Bulletin, June 1974.

The survey which resulted in, inter alia, the data presented in tables 2 and 3 covered 877 companies in the private sector. Of these companies, 197 were "subsidiaries", i.e. with more than fifty per cent foreign participation (i.e. with fifty per cent or less foreign participation). The remaining 247 companies had pure technical collaboration arrangements.[3]

The increased profits were reflected in larger remittances abroad as is clear from Table 4 below.

TABLE - 4

Remittances by Foreign Companies (millions of Rupees)

Year	Profits	Dividends	Technical Knowhow	Royalty	Interest Private	Interest Official	Total
1963-64	128	188	-	46	108	624	1086
1964-65	156	220	36	44	62	720	1238
1965-66	135	194	70	30	94	860	1383
1966-67	214	288	104	51	176	1353	2186
1967-68	172	327	147	43	194	1542	2425
1968-69	130	302	180	47	199	1672	2530
1969-70	127	314	131	57	193	1763	2585
1970-71	132	435	206	51	202	1857	2083
1971-72	99	389	139	59	182	1827	2695
1972-73	156	390	114	73	212	1979	2924
1973-74	219	375	141	62	215	2128	3140
1974-75	72	183	126	85	463	1789	2718
1975-76	204	248	256	105	321	1743	2877
1976-77	131*	485	378	159	347	1936	3436

Source: Economic News Digest, August 1979, p.4, Newsletter of Indian Investment Centre, New York, as quoted in Watkins, Steven Lane, The Foreign Investment Law and Policy of India, mimeograph, Los Angeles, January 1980, p.56.

* Provisional.

Section II: The Political Setting

To understand the often contradictory policy signals during this period and the possible reasons for increased penetration by foreign capital it is necessary, first of all, to appreciate the political setting in which these took place.

The general elections of 1967 returned the Congress to power at the Centre but with a greatly reduced majority. For the first time since independence, there arose the possibility that party factionalism could threaten the very stability of the Congress government at the Centre. And various combinations of opposition parties came to power in several major states. The elections led to a strengthening of the Right in Indian politics. This was reflected in the emergence of the Swatantra party , which was widely considered as a party of industrialists, as a significant group in the Lok Sabha. Along with this change in the political atmosphere, there was a perceptible increase in the clout wielded by west-leaning economists in the counsels of government. This became particularly marked in the post-1973 years. The composition of the personnel charged with economic planning during these years reflects a preponderance of advisers who were closely associated with western economic thinking.

The broad policy of self-reliance continued to command formal adherence. The Approach to the Fifth Plan placed much emphasis on the attainment of self-reliance. Speaking in terms of political development and their bearing on the climate for foreign capital, the 1967-1980 period was one of flux in terms of there having been a series of contrary tendencies at work. There were shifts or thrusts both toward the left and toward the right.[4] These often overlapping variations in policies had two important characteristics. First, they were of relatively short duration. Secondly, no shift during this period was so overwhelming as to swamp contrary tendencies at work within the state apparatus itself. It was not until 1980 that the very thrust and intent of the state apparatus as a whole underwent a sharp and definite change.

The electoral setback to the Congress in 1967 sharpened the factional conflict within it. The ambiguous stand taken by bigbusiness toward the Congress in the 1967 elections lent a particular edge to the

struggle. The fissures started emerging by May 1967 when the Congress Working Committee passed a resolution asking for, among other things, social control of banks.[5] In addition, it demanded the nationalisation of general insurance, extension of state trading, especially in foreign trade, regulated growth of monopolies and restrictions on the privileges of former princes.

The resolution was drafted by Mr. Gulzarilal Nanda and Mr. K.D. Malaviya, along with the then Union home minister, Mr. Y.B. Chavan. It is significant as representing a more or less complete and formal statement of the 10-point programme that Mrs. Gandhi was to pursue in the next four years and in the name of which she was to split the Congress party in 1969. In view of its political significance it is reproduced in full in annexure 'F' to this report.

In the following month, i.e. June, the AICC meeting at New Delhi put its imprimatur on the ten-point programme. In doing so it stipulated further that minimum needs should be provided to the entire community by 1975 and that not only the privileges but also the privy purses of princes should be abolished.[6] Internal Congress politics from here onwards revolved to a large extent, around this programme. Party factions took their positions for and against particular points of the programme as Mrs. Gandhi skilfully raised these by turn, thereby forcing her opponents within the party to take up positions that revealed their conservative predilections.

Thus begins a period of sharp thrusts and counterthrusts within the Congress party representing contrary economic tendencies all of which were evident in the economic decision making of the period.

The initial thrusts of the radical group within the Congress were not aimed at foreign capital. It was primarily on the role of Indian big business houses that attention was focussed at this time. Earlier, in July 1966, the Planning Commission had asked Prof. R.K. Hazari to examine the working of the Industries (Development and Regulation) Act. In his interim report, which was submitted in December 1966, Prof. Hazari showed that:

> ...industrial licensing has accentuated the concentration of wealth in a few hands and that since the first plan shortfalls in investment and output have been large and persistent - mainly in basic industries and in particular in the steel, cement, machinery and fertiliser industries. The gains in terms of balanced regional development and wider distribution of entrepreneurship are at best moderate if not adverse.[7]

The CWC resolution passed in May was also reflective of similar conclusions. Significantly, it was towards the end of this year that the Monopolies and Restrictive Trade Practices Bill was also introduced.

Section III: **The Evolution of Policies upto the enactment of FERA**

The import policy for 1967-68 announced in May 1967 was liberal and was hailed on behalf of foreign capital and its collaborators as carrying through "the process of liberalising imports further since the devaluation of the rupee last year."[8] In the following year on July 20 and November 27 the procedures for foreign investment were further 'streamlined', with the decision to establish a Foreign Investment Board and the 'delegation' of powers to it.[9] The board was given powers to handle all cases where equity capital was less than Rs. 2 crores and foreign ownership less than 40 per cent of equity. Illustrative lists were issued of industries where foreign capital and technology would be permitted.[10] The lists, which are reproduced in the appendix, (Annexure 'G') were a considerable enlargement of the May 1961 list of such industries which has been referred to earlier.

Official policies toward foreign capital gradually came to be a mix of much encouragement and some nudging. In 1968 there was apparently some 'bad feeling' between the British and Indian governments over the West Bengal government's proposal for the nationalisation of the Calcutta Tramways Company.[11] But this was clearly a minor irritant. Early in 1969 the government announced a new policy on foreign collaboration to encourage exports. Capital noted that under the new guidelines it would be "possible to have foreign collaboration even in non-essential and low-priority fields of production, provided the joint ventures set up in such collaboration are export-oriented". It observed that the policy changes are in conformity with the recommendations "made by the Ramaswamy Mudaliar Committee on foreign collaboration for a liberal approach to requests for foreign

collaboration by export-oriented units".[12] In 1969 the government asked, but as Lipton and Firn note, "did not compel", foreign-owned companies to make a greater contribution to exports.[13] It drew the attention of the companies to the fact that there were no restrictions on the remittances of foreign companies. This was a fair reference since, as Lipton and Firn quote a British manager as saying, "India's record on the remittance of dividends is absolutely impeccable..."[14] The state government of Kerala, and later that of Assam, continued to push ahead with schemes for the nationalisation or takeover of foreign-controlled plantations.[15] But the Central government scrupulously adhered to the 1949 assurance on foreign capital and fair compensation in the unlikely event of take over.

The Patents Bill was introduced during the year and became law in 1970. The bill was vigorously opposed by foreign capital especially in the drug industry. The organisation of foreign-controlled companies in this industry, viz. OPPI, campaigned against reduction in the number of years for which a patent could be obtained in the drug industry. K.A. Hamied, the founder of the indigenously-controlled Cipla, has recorded OPPI's attempt to enlist his powerful support in this campaign.[16] But by June 1969 itself The Financial Times, London was apparently convinced that British investors' apprehensions about the bill "and the possibility of a centralized agency set up to purchase know-how for free distribution to Indian firms have been allayed."[17] Foreign banks were generally exempted from the nationalisation of banks. Though one of the banks then nationalised, viz. the Allahabad Bank, was owned by the (British) Chartered Bank to the extent of 92 per cent, the compensation given was, according to the Chartered Bank, itself, 'unobjectionable'.[18]

Nevertheless, the move was unequivocally condemned by foreign capital. The 50th Annual Report of ASSOCHAM observes:

> "The circumstances which preceded the promulgation of the ordinance...(and given) the arguments advanced to justify the decision to nationalise the banks and the haste by which the Bill was introduced and passed by Parliament left little doubt that the decision was politically motivated rather than guided by economic considerations. It was felt therefore that no useful purpose would be served by pointing out the economic disadvantages of the decisions and that nationalisation would have to be accepted as a fait accompli."[19]

In the growing fissures within the Congress it was the conservative group that was inclined to extend more unequivocal support for foreign capital. There is more than a faint hint of foreign capital's own preferences at the time of the Congress split.

The Congress President, Mr. S. Nijalingappa who found himself in the vortex of the, by and large rightist, organisational group's struggle against Mrs. Gandhi's wing, was referred to on behalf of foreign capital as having "had no doubt that India too could prosper if no obstacles were placed in the way of free flow of foreign capital into this country."[20] Simultaneously, the Union minister for Industry, Mr. Fakhruddin Ali Ahmed, who was known as a prominent member of Mrs. Gandhi's wing, was mentioned, in a rather laboured argument, as having played an obstructive role in this context:

> To the existing medley of procedures relating to foreign investment, the Central Minister for Industries, Internal Trade and Company Affairs, Mr. Fakhruddin Ali Ahmed, has added quite a few as his distinctive contribution of placing more hurdles to the flow of foreign capital. In an attempt to clarify his policies, he went abroad, and has returned home, causing a greater confusion in the minds of foreign investors and collaborators. For instance, in the United Kingdom, which has the largest number of collaborations in this country, Mr. Ahmed insisted on collaborators agreeing to his formula for the transfer of imported technology to more than one Indian party and naturally found that the response was not at all encouraging.[21]

A concerted attempt was clearly being made at this critical juncture to extract further concessions from Mrs. Gandhi's government with an increasingly clear articulation by foreign capital of a supposed grievance even in the face of concessions announced by the government at the beginning of the year:

> The World Bank President, Mr. Robert S. McNamara, sought to impress on the government of India that India's economic progress could be accelerated with a freer flow of private capital from abroad. The World Bank Commission on Development Aid, headed by Mr. Lester Pearson, also made this point during its discussions in New Delhi some months ago. And yet, foreign capital continues to be suspect in the eyes of the bureaucrats in New Delhi.[22]

The report of the Industrial Licensing Policy Inquiry Committee (ILPIC), which had been set up primarily in response to the disquiet that had been expressed in Parliament on the disproportionate share of industrial licences cornered by the large Indian industrial houses, particularly the Birla house, became available in 1969.

The Committee focussed its attention on large industrial houses and the foreign dominated sector. Clearly, it saw these undertakings as having crucial influence upon the economy--i.e. as being the 'key sectors' in the economy. It examined the question of 'controlling interest' in detail and felt that control over 1/3 or more of effective equity would provide a reasonable index of 'controlling interest'.[23] This is significant in view of the more than 40 per cent criterion now adopted for purposes of the Foreign Exchange Regulation Act.

The report, which provided evidence that these houses had in fact received a disproportionate share of licences, lent greater ballast to the attack against the larger houses which had become one of the issues in the Congress factionalism at this time. Although the report also underlined cases of excessive permissiveness in respect of foreign collaborations, this aspect of its observations was largely ignored. The committee had, for instance, documented cases of undue concessions given to foreign capital under the licensing machinery. ILPIC noted that though the assets held by some of the foreign companies "may not be on par with those of the (Indian) large Industrial Houses and the Large Independent Companies, they are in a position to exert influence in matters like obtaining licences on the strength of their international stature".[24]

Of the 60 large independent companies identified by ILPIC (i.e. companies having assets exceeding Rs. 5 crores) as many as 27 were foreign-controlled reflecting the extent to which foreign capital dominated large Indian enterprise. The committee has brought out the importance of foreign companies in the lead sectors like polyester fibre, aluminium, fertilisers, carbon black, and so on.[25] This has been referred to in an earlier chapter.

The government responded both to the increased pressures from foreign capital and to the demands within the country in a typically ambiguous manner. Apart from the enactment of the Monopolies and Restrictive Trade Practices Act, whose inadequacies will be discussed later in the present report, the government announced a new Industrial Licensing Policy on February 18, 1970. The Policy was a brilliant

exercise in equivocation, reflecting an attempt not to step too hard on the toes of foreign capital while at the same time seeking to create an impression that the activities of large industrial houses and foreign capital were being severely restricted.

The new policy is important as having set the tone for the policies pursued through the seventies and at least upto the general elections of January 1980. Using the concept of larger industrial houses as defined by the Industrial Licensing Policy Inquiry Committee (ILPIC) the government now laid down, in the new context of the fourth five-year plan, that undertakings belonging to these houses would be "ordinarily excluded from participating in sectors other than the core and heavy investment sectors leaving the opportunity, in the remaining sectors primarily to other classes of entrepreneurs."[26]

Foreign capital too was ordinarily to be 'confined' to the 17 industries specified as being part of the 'core sector, but existing foreign investment in other sectors was not to be disturbed. The policy itself represented the final abandonment of the philosophy which had informed the attempt in the Industrial Policy Resolution of 1956 to ensure that "all industries of basic and strategic importance, or in the nature of public utility services, should be in the public sector", and that other industries "which are essential and require investment on a scale which only the state, in present circumstances, could provide, have also to be in the public sector."[27]

It represented in some ways a culmination of the government's May 1961 statement which had been issued in the name of the Third Five Year Plan, and under which foreign capital had been especially invited into several sectors falling wholly or partially in Schedule A of the Industrial Policy Resolution 1956. With the new policy it was clear that the state no longer expressly wished to establish its exclusive control over the "commanding heights" of the economy. This, by itself, was a major victory for foreign capital since the cutting edge of central planning, against which it had campaigned from the very beginning, was thus blunted. Yet this did not mean that the government had decided to throw open the gates to foreign capital, regardless of the terms on which it came. In fact, it was not possible for the Indian

state to act in this manner immediately, given the components of relative self-reliance that economic planning had so far emphasised and the substantial domestic capabilities that had been built up in the process.[28]

The "radical" forays of the Indian government, linked as these also were to the internal faction fight within the Congress, thus continued during this period. The Monopolies and Restrictive Trade Practices Act came into effect in 1970. The Act, which was to become a major bugbear for industry, provided a vast area of discretion to the government in respect of cases to be referred to the Monopolies Commission set up under it. A serious omission in the legislation which was to prove to the benefit of foreign capital was that it did not take account of the international personality of the company concerned. For instance, a shortcoming in the definition of inter-connected undertakings was that it left out of the reckoning inter-connections existing outside the country.[29]

The managing agency system, a hangover of foreign domination of industry in the colonial days, was abolished on April 3, 1970. This had been recommended by the Managing Agency Enquiry Committee in the sixties as a measure against the concentration of economic power. The extent to which the system was associated with foreign capital had admittedly declined by this time. How the abolition of the system would affect managing agencies had been considered in detail by the Managing Agency Enquiry Committee.[30] The panel had observed, for example, with respect to the cotton textile industry:

> There is no reason why the discontinuance of the managing agency system in the cotton textile industry should lead to disinvestment by foreign investors. But even if it does, the magnitude involved cannot be considered to be large.[31]

In the case of jute it observed that:

> ...the outstanding foreign investments in the jute industry as at the end of 1961 were of the order of Rs.11.8 crores representing about 33 per cent of the total paid-up capital of all jute companies at work as on 31st March 1964. Of these, Rs. 9.8 crores was by way of direct investments in foreign banks, Rs.0.4 crores in foreign-controlled rupee companies and Rs.1.6 crores by way of portfolio investment in companies in India. Investment in foreign branches is not connected with the managing agency system and should not, therefore, be affected by any change in the system of management in the industry.[32]

Similarly, in the sugar industry the total foreign investment outstanding at the end of 1961 was Rs.7.2 crores. Of this, Rs.5.3 crores was by way of direct investment in foreign branches, Rs.0.6 crores by way of direct investment in foreign controlled rupee companies and Rs.1.3 crores in the form of portfolio investments in companies in India. The Committee observed that the managing agency system was "not relevant" to investments made in foreign branches as these branches were not managed by managing agents. It felt that there was no reason "to believe that the remaining small amount of foreign investment would be affected by any change in the system of management in the sugar industry.[33]

Matters were somewhat different in the cement industry. Of the 42 cement companies, 12 companies, which accounted for nearly 85 per cent of the paid-up capital of all cement companies, were managed by managing agents.[34] But in this case, too, the Committee observed that

> "the outstanding foreign investment in the industry at the end of 1961 amounted to Rs.3.9 crores, of which Rs.2.6 crores was by way of direct investments in foreign-controlled rupee companies and Rs.1.3 crores by way of portfolio investments. There is no reason why there should be any significant dis-investment on the part of foreigners in this industry in the event of the discontinuance of the managing agency system as we do not apprehend that the profitability of the industry will be affected by such a discontinuance."[35] (Our emphasis).

This was the crux of the matter. Since the abolition of the managing agency had little or no bearing on the profitability of industry, there was little fear that this would affect with any severity the interests of foreign capital within the country. Accordingly, the government abolished the managing agency system not only in the industries named by the committee but in the entire economy.

However, more significant moves affecting foreign interests adversely came in the following year. The general elections held in 1971 had provided the Congress with a large majority in the Lok Sabha. Now that Mrs. Gandhi had firmly established her ascendancy on the political scene and the rival Congress faction had been humbled, there was no longer a pressing need for her party to continue to flaunt its radicalism by, for instance, taking up positions against Indian industry. General Insurance was nationalised in May 1971. This move,

which was in accordance with the Congress Party's ten-point programme, did constitute something of a blow to foreign capital. As Lipton and Firn have observed

> "much of the general (non-life) insurance business done in India was until May 1971, also under British control, with 38 of the 106 general insurance companies in India being British - although of the total gross premia written, the share of all foreign companies was only some 17 per cent (Rs. 230 mn) in 1969, of which seven-tenths were written by British companies."[36]

The foreign exchange cost of this to India remains uninvestigated. 37

Around this time the government appears to have decided also to put increased pressure on foreign-controlled companies to go in for greater Indian participation. This was in response to increased dividend remittances. Upto now the chief device used by the government for securing greater Indian participation had been to stipulate conditions relating to dilution as and when proposals from such companies for obtaining industrial licences for the production of new articles or for expansion came up before it. This was, by its very nature, an ad hoc approach which permitted of little by way of a broad framework within which the dilution of foreign equity would occur. The idea till then had been not to disturb the foreign-majority status of these enterprises. In fact, the government had signified to the companies that once foreign equity was down to 60 per cent no further dilution would be required in case they later applied for expansion or diversification.[38]

Even during this period several foreign companies had found it advantageous to offer a limited number of shares to the Indian public in order to bring down foreign ownership from 100 per cent. One reason for this was that if a company was quoted on the stock exchange it became eligible for a lower rate of corporate taxation as a 'widely held company'.[39]

Generally, however, the attempt to bring about greater Indian participation through these means had the disadvantage that foreign-controlled companies which fell outside the ambit of industrial licensing and also did not seek permission to make further capital issues were not put under such pressure to dilute their foreign

holdings. That there was a tendency to avoid such compulsions is suggested by the fact that a large number of companies with 100 per cent foreign ownership had "reserves disproportionate to their paid-up capital."[40] In order to avoid the ad hocism inherent in such efforts to get foreign-majority companies to dilute, an attempt was made to get the companies to submit expansion and or diversification plans for a five year period. But even this approach suffered from drawbacks, the chief of which was that the companies sought thereby to obtain package approvals including concessions in terms of licensing for items which they would not ordinarily have been entitled to produce in lieu of a substantial dilution on their part.[41]

Finally, the "dilution formula" applicable to companies with more than 51 per cent foreign equity was announced in February 1972 and has formed the basis of official policy since (see Annexure 'H'). An effort was now made to establish some sort of a quantitative relation between the additional investment required for expansion or diversification and the dilution that would be sought to be brought about. The 'formula' made it necessary, in case of such expansion/diversification, for the company concerned to make an issue of equity to Indian residents. This would be on the basis that :

> (1) Where the existing foreign shareholding exceeds 75 per cent the additional equity to be issued to Indian residents will be 40 per cent of the estimated cost of the expansion or diversification project.
>
> (2) Where the existing foreign shareholding is less than 75 % but more than 60 per cent, the additional equity to be issued to India residents will be 33-1/2 per cent of the estimated cost of the expansion or diversification project.
>
> (3) Where the existing foreign shareholding is less than 60 per cent but more than 51 per cent the additional equity to be issued to Indian residents will be 25 per cent of the estimated cost of the expansion or diversification project.[42]

The dilution formula, while being a useful device for securing dilution of foreign equity in case of expansion or diversification by the concerned companies was somewhat restricted in its scope insofar as it applied only so long as a company had more than 51 per cent foreign shareholding. It was not therefore to affect the foreign majority status of the companies.

The All India Manufacturers' Association held a seminar on Industrial policy in September 1972 in which ASSOCHAM took keen interest. ASSOCHAM followed up this seminar "directly and indirectly during the year", seeking among other things a "clear policy announcement on the role of larger and foreign companies."[43] ASSOCHAM had, as they note in their annual report, much cause for gratification over their efforts.[44]

For, in 1973, the Government of India conducted yet another review of its industrial policy which, as ASSOCHAM observed, "highlighted" the very issues raised by it, and provided a "clear direction."[45] The government's decisions were announced in a press note on February 2, 1973.[46] While asserting once again that the Industrial Policy Resolution of 1956 would "continue to govern Government's policies for achieving the objective of growth, social justice and self-reliance in the industrial sphere", it gave more concrete shape to the 1970 policy of inviting foreign concerns, subsidiaries and branches and large industrial houses into the so-called 'core sector'. The list of core sector industries was consolidated and two more industries added, bringing the total to nineteen. This sector was defined, "in the context of the fifth plan" as "the core industries of importance to the national economy in the future, industries having direct linkages with such core industries, and industries with a long-term export potential", all of which were of "basic, critical and strategic importance for the growth of the economy". Appendix I attached to the 1973 press note specified the industries included in this sector.[47] It was laid down that foreign concerns and subsidiaries and branches of foreign companies would be "eligible to participate in the industries specified in Appendix I along with other applicants." But it was also specified that these parties would "ordinarily be excluded from the industries not included in this list."[48] (our emphasis). The use of the term 'ordinarily' suggested that foreign investment in other sectors could also be considered. Besides, it was specifically mentioned that the companies would be "entitled as at present to invest in industries where production is predominantly for exports". It was announced also that the joint sector would be increasingly encouraged.

We have observed earlier that the policy toward foreign enterprise based on the core sector concept was diametrically opposed to the philosophy of the Industrial Policy Resolution (IPR) of 1956 according to which the crucial industries were to be in the hands of the state. The cornerstone of the new policy on the other hand was the twofold assumption that sophisticated technology which was not otherwise available would be brought to the country by foreign enterprises in order to develop the strategic areas of the Indian economy and that for this it was necessary that foreign financial participation be permitted.

We may note here that, firstly it has not been established that actual investment is the only or necessarily the best device for securing a transfer of technology. And secondly, that there is little evidence to indicate that such transfers have been in fact brought about in any significant manner by the above policy. Indeed in several industries the evidence on this point is negative. This is confirmed in the case of drugs and pharmaceuticals by the report of the Committee on Drugs and Pharmaceutical Industry, submitted in April 1975.[49] For earlier periods and other industries the same picture emerges from sucessive reports of the Tariff Commission.[50] The National Committee on Science and Technology also made the observation in May 1973 that "foreign equity participation is not essential for procurement of technology."[51]

However, the more pertinent issue that we would like to raise here concerns the manner in which the change in industrial policy in 1970-73 was brought about. Although it was obvious that the basic philosophy and economics of IPR 1956 was being thereby turned on its head, the matter does not appear to have been presented in a straightforward manner to Parliament and the public. As we have observed, the government continued nevertheless to swear by IPR 1956. These policies combined with the Foreign Exchange Regulation Act (which came into effect on January 1, 1974) to produce a curious amalgam. Although the Industrial Policy of 1973 restricted fresh foreign investment to Appendix I industries, the guidelines issued under FERA, kept open the possibility that foreign investment might take place outside Appendix I so long as it met certain conditions on the proportion of foreign equity and so on.

According to Section 29 of the Foreign Exchange Regulation Act, (see Annexure 'J') all foreign enterprises, i.e. companies with more than 40 per cent non-resident holding operating in the country on that date could continue their activities only with the permission of the Reserve Bank of India. The bank was to decide each case in accordance with certain guidelines which were laid before Parliament on December 20, 1973. These guidelines were latter "amplified" in April 1976. Under the guidelines it was sought to specify levels of foreign equity that foreign enterprises could retain given the nature of their business.

The guidelines (see Annexure 'K') lay down that, firstly, all "branches of foreign companies will be required to convert themselves into rupee companies with Indian participation ranging between 26-60 per cent depending on the nature of their activities."[52] Of these, the following three categories of companies were permitted to remain foreign-majority companies (i.e. with foreign equity ranging upto 74 per cent or 51 per cent) :

(a) Companies operating in specified high priority industries, namely, the industries listed in Appendix - I to the Industrial Licensing Policy Statement of February 1973.

(b) Companies whose activities involved sophisticated technology.

(c) Companies exporting more than 60 per cent or 40 per cent of their own production.[53]

If a company whose turnover from these categories either singly or jointly accounts for more than three quarters of its total turnover or if its exports are greater than 60 per cent of the turnover, it would be permitted foreign equity upto 74 per cent. Companies which had more than 60 per cent, but less than 75 per cent, of their turnover accounted for by the above three activities were allowed foreign equity upto 51 per cent so long as they exported at least 10 per cent of their turnover. Companies whose exports on their own accounted for more than 40 per cent of their turnover were also allowed foreign equity upto 51 per cent.

Tea plantations were, however, treated on a different footing on account of their importance in exports and were allowed to retain foreign equity upto 74 per cent.[54]

It must be recognised that, in spite of their limitations, FERA guidelines had a number of features that could not have been welcome to foreign capital.

First of all, the insistence that all branches of foreign companies should be converted into rupee companies (i.e. companies incorporated under the Indian Companies Act) resulted in a check on income tax free foreign exchange leakages under such items as "head office expenses".

Secondly, the thrust of FERA was directed in large part to increasing exports. Thus, as has been mentioned above, export conditions were imposed in certain cases for retention of a higher percentage of foreign equity. This feature of FERA was in direct conflict with the primary economic motive of foreign capital in India - namely, to sell to the expanding domestic market. The importance of this can be grasped from the fact that foreign collaborations in India generally involve the imposition of export-restrictive clauses. In an RBI survey, for example, it was found that of the restrictive clauses imposed by parent companies in agreements with their subsidiaries nearly eighty per cent referred to export restrictions.[55]

Thirdly, the FERA guidelines had a spin-off effect on the conditions for exemption of foreign dominated concerns from industrial licensing which could not have been to the liking of foreign capital. On February 16, 1973, before FERA was introduced, the government had issued a notification which had set out the position on the conditions in which foreign-dominated concerns would be exempt from industrial licensing. Under it industrial undertakings owned by foreign companies, their branches or subsidiaries or by companies in respect of which more than 50 per cent of the paid up equity share capital is held directly or indirectly by foreign companies, their branches or subsidiaries, or by foreign nationals or non-resident Indians are <u>not eligible</u> for any exemption from the licensing provisions of the IDRA.[56] However, FERA, which came into effect after this notification laid down that companies with more than 40 per cent foreign equity would require the Reserve Bank's permission to carry on business. On 16 November 1976, therefore, the government modified the regulation on availability of exemption from industrial licensing to bring it into greater conformity with FERA.[57]

It was thus laid down that industrial undertakings having (direct or indirect) foreign equity of more than 40 per cent (in place of the earlier 50 per cent) in the paid-up equity capital of the company would not be exempted from the licensing provisions in terms of the government notification of February 16, 1973. As we show below, one and a half years later ASSOCHAM successfully secured also a modification in the precise definition of the companies that would be eligible for exemption.[58] Industrial undertakings with more than 40 per cent foreign equity which had already been set up in respect of all items in the IDRA Schedule were required to apply for carry-on-business licences within three months.

Section IV: Foreign Business And The New Regulations

Foreign interests were opposed from the outset to the foreign Exchange Regulation Bill introduced in Parliament in 1972 and to the related regulations made before and after its enactment.

Mr. Prem Pandhi, who is associated with Cadbury's India, appeared before the parliamentary Joint Committee on the bill to argue against the regulatory power being granted to the Reserve Bank:

> After permission is given under the Industrial Development and Regulation Act and clearance is given by the Company Law Board, it is a bit invidious that the foreign companies or the foreign-associated companies should now be put in a position where they have to reduce the share-holding, almost under pressure.[59]

ASSOCHAM had a similar point to make in its memorandum to the committee: "The Chambers are also concerned about the...power which has been given to the Reserve Bank to bring about the closure of any established business organisation". It argued that:

> "...There is a clear case... for exempting from the provisions of this section all companies engaged in manufacturing under a licence issued under the Industries (Development and Regulation) Act, where the extent of foreign participation has been previously approved by government."[60]

The Indo-American Chamber of Commerce urged in its memorandum that

> the 40% holding by non-residents as a test for determining the status of the company should be raised to more than 50 per cent since a large number of existing companies with foreign collaboration would be adversely affected by the proposed change. The concept of control more than 50 per cent is in line with the companies Act and generally accepted principle.[61]

Interestingly, FICCI gave general support to the position taken by foreign capital on this matter. In its memorandum to the Committee, FICCI observed

> "...the large question of non-discrimination against foreign controlled companies which are for all practical purposes Indian companies has to be borne in mind regardless of the understandable need for progressive Indianisation of foreign controlled companies."[62]

The opposition of foreign capital to the legislation continued relentlessly even after its enactment.

At an ASSOCHAM workshop held at Bombay in November 1976 in which a British mission consisting, among others, of two past presidents of ASSOCHAM -- Sir Michael Parsons and Sir Cyril Pitts -- participated, fears were openly expressed over the FERA policies. Sir Cyril Pitts sought clear assurances: "The government of India, for better or for worse have decided on 40 per cent being the level of foreign investment that they would like to see in this country. But the point that is raised in the minds of investors overseas is: is this percentage going to be sacrosanct or in two or three years time, are we going to find that there will be a change, and the level of foreign investment will be lowered?[63]

He went on: "Could I say this perhaps, profitably, that leaving aside 40 per cent or 60 per cent or no per cent, I think the view from Britain is that your government's attitude to technology and the terms and conditions on which it is prepared to buy are by world standards niggardly. The bargaining is hard, the parameters of payment are very restricted, the length of payment is very restricted..."[64] Mr. H.P. Nanda reassured his guests: "To sum up, the provisions of FERA, if looked at in isolation, no doubt appear more stringent and restrictive. But in my view, there is more bark in them than bite and the administration has always been adopting a moderate and pragmatic approach in the application of the various provisions".[65] So far as the price of technology was concerned Mr. N.A. Palkhivala answered Sir Cyril: "I would imagine there would be some cases where in the past there has been overpayment. I am prepared to concede that there are other cases where adequate payment, is not permitted. So, you might say that on the whole justice is done."[66]

On the other hand, there were also some aspects of the new policy that cleared the way for foreign capital to widen its influence on the Indian economy. The fact that a company that brought down its foreign equity to 40 per cent or below would be exempt from such regulations as are applicable to FERA companies meant that foreign-dominated companies, after making the required dilution, could seek wider pastures since such companies would be considered on par with any domestically-controlled company. It is no secret that even after the dilution of foreign equity to 40 per cent or less several companies were still bound to the foreign "parents" through various restrictions on the management and its powers – e.g. the rights to appoint a minimum number of directors and restrict the use of trade marks. The maintenance of such control was facilitated by the administration of FERA itself. For, as a matter of policy, the fresh equity issued to residents in order to bring about the dilution was to be widely dispersed.[67] On the whole, foreign capital appears to have adjusted itself quite smoothly to functioning within the four corners of the FERA guidelines. This should be clear from the fact that upto August 1979 as many as 235 companies had been given permission to retain foreign equity above 40 per cent; yet today, according to figures corrected upto August 31, 1981, there are only 186 companies having foreign equity above this level.[68]

It needs to be noted also that the FERA dilution policy was not rigorously invoked until long after the guidelines had been announced in December 1973. This as we shall observe in a subsequent chapter gave the concerned companies considerable time to prepare themselves for the change, even as there was a renewed wind of liberalism in the emergency (1975-77) phase, leading to the expectation on the part of foreign capital that the new guidelines would not, after all, become effective in their original form. Mention must be made here of the Committee on the Drugs and Pharmaceutical Industry which made recommendations of great significance in April 1975. These are dealt with in another part of our report.

The promulgation of the emergency in June 1975 initially evoked a hostile political response in the West. The Indian government however,

successfully managed to mute this opposition through an increasingly liberal industrial policy and a softening of the attitude toward foreign capital.

In 1975 the government further liberalised the industrial policy. Twenty one industries were delicensed in October. These included cotton spinning, solvent extraction of oil and oil cakes from minor seeds, and certain varieties of paper, glass lamps and tractor-drawn agricultural implements.[69] Foreign companies and large houses were allowed to expand beyond their licensed capacities in 30 other industries, including drugs, cement, paper, chemicals, fertilizers and heavy industrial and chemicals equipment. In November the procedure for regularising unauthorised capacity installed by foreign companies and large houses was liberalised through what was described as 'normal'expansion and 'automatic licensing' for the coming years which could cover part of the capacity already installed.

The 'amplified' FERA guidelines issued in April 1976 provided an important concession to foreign capital. It now became possible for a large number of companies that would have had to dilute foreign equity to 40 per cent, to retain a higher level of 51 per cent, a new mid-resting point which was now introduced. This was probably an outcome of the specific pressure of ASSOCHAM that we document at length below.

In a representation made by the ASSOCHAM president, Mr. Akbar Hydari, to the Union Finance Minister, Mr. C. Subramaniam, which was circulated to its members on August 6, 1975, it was stated:

> The Guidelines as they stand provide only for two categories of companies with foreign interest, that is, those permitted the maximum of 74 per cent foreign holding and the remainder whose ceiling is 40%. In order to be considered in the 74 per cent cateory, companies must either be engaged in the production of the items specificed in Appendix I of the Industrial Licensing Policy issued in February 1973, or they should be engaged in a predominantly export-oriented activity, their minimum export quota being 60 per cent of total production. Alternatively, they should employ sophisticated technology or skills. It is submitted that many companies comply in part with one or more of these criteria, and the bigger the company the less easy it is to comply in full with all of them. Large companies may achieve substantial exports in absolute terms which may not reach 60 per cent of their total production, and equally they may be engaged in diverse acativities some of which, though not all, fall under Appendix I. Equally, the criterion of sophistication can never be absolute and must depend on all kinds of qualitative factors which cannot be quantitatively measured.

We feel therefore, that there is a very strong case for introducing an element of flexibility which would permit foreign-controlled companies to bring down their non-resident equity in stages over a period of time (which may extend in the case of very large companies to five years or more), rather than abruptly over a one or two year period.

We submit for your consideration that in defining technology a graduated scale should be employed from 'low through 'medium' to 'high medium' and 'high". Low technology would obviously restrict the foreign shareholdings to 40 per cent, medium to, say, 50 per cent, High Medium to 60 per cent and high to 74 per cent.[70]

This demand was thus conceded within nine months.

Section V: Political Undercurrents, Institutional Weaknesses And Economic Policy

The nature of the politics and the economic costs of multinational companies' operations during this period were widely noted. These continued to cause much concern in Parliament and parliamentary committees. Indeed, the anxiety over them became more marked especially with the new "openness" that came to characterise official economic policies during the emergency phase 1974-75.

Prof Hiren Mukerjee reminded the Lok Sabha of the warning by Ralph Nader: ...where investment goes so does well-planned behind the scene politics. It is a Trojan horse to the least developed countries"[71] Specific instances were pointed out: "When there was war between India and Pakistan the two foreign oil companies stopped production of fuel oil necessary for carrying out the fight, and the Public Accounts Committee roundly condemmed this virtual sabotage."[72] Prof. Mukerjee went on: (The multinationals) "make donations to political parties, spend money to maintain lobbies inside Government and inside Parliament and provide other inducements such as liquor, entertainment in luxury hotels and hospitality outside India when officials travel abroad. There should be an inventory as to how many relatives, children and nephews of big officials are employed by Boeing or Roche or heaven knows what other companies...[73]

Vayalar Ravi asserted: "We all know very well the undesirable activities of companies like Dunlop and Phillips, who bribe the oficials to get whatever they want. I have mentioned these two names only by way of illustration: they are not exhaustive. The activities of multinationals harm the country in every field... I believe there must

be greater control and every effort should be made to curb their activities which include toppling governments.[74] Tridib Chaudhuri underlined the danger:

> "Now, what was the principal multinational corporation whose hands were active in Chile? It is the ITT. We might think that we are free from the operations of ITT in India. But no, ITT has a subsidiary in the United States which is in the hotel business -- Sheraton Hotels. Sheratons have already opened here and those who have gone to Bombay Oberoi - Sheraton know how they have combined with our monopolists and hoteliers. How those people the Indian partners of Sheratons, are encouraged to intrude and take a hand in politics, you all know."[75]

Anxieties were expressed regarding the attitude of the government and its officials towards foreign companies. In the climate prevalling during the emergency Tridib Chaudhuri felt called upon to give a striking illustration :

> "Only some years back the president of General Motors came here and they had some kind, or still have some kind of arrangement, with Hindustan Motors and Birlas. General Motors is the biggest multinational corporation in the United States. When this gentleman came he was received in Bombay by the Governor himself, the Rajyapal there and all the ministers linked up at Santa Cruz to receive him. Then he stopped over for a few hours in Delhi and he was given special audience by the then President of the Indian Republic. Then he files to Calcutta to the Hind Motors and performs his opening ceremony for the Birlas..."[76]

Dr. Saradish Roy drew attention to the activities of Phillips Petroleum company pointing to a report that the company "used a camouflaged Swiss bank account to transfer a vast sum to India in connection with the construction of two Phillips facilities in India. The transfer of the money was allegedly at the instance of certain unidentified Indian government officials..."[77]

References were also made to the case of the Boeing Company which had been the subject of inquiry in the United States for its "illegal payments to political parties" and "bribes paid to oficials of Airlines in developing countries in connection with the sale of cargo and commercial jets," India being one of the companies mentioned in this context.[78]

Similarly, there were allegations to the effect that G.D. Searle & Co. was "in ...collusion with the All India Society of Obstetricians and Gynaecologists...to sell some of their products...[79] The unfavourable attention that multinationals received was not merely from the far left of the political spectrum. K.S. Chavda of the Congress (O), who was a

member of the Hathi Committee, observed that the drugs multinationals "managed to get 'Permission letters' and 'COB' licences...and engage themselves in the production of formulations without any valid licence. They have not given us any new technology and these are the companies which corrupt some of our senior government officers. These high officers in the DGTD, Ministry of Chemicals and Fertilizers and in the Licensing Committee, have granted undue favours to these multinational drug corporations; and have created monopolies against the national interests".[80] About the operations of Pfizer he had this to say:

> "They have unauthorisedly expanded the capacity of the production of Oxytetracycline from 9 tonnes to 40 tonnes. They were asked to execute export bond which they have not done so far. They were asked to part with their production to non-associated formulators, which they have not done so far. On top of all these violations of the Law of Land, they have now applied for the manufacture of doxycycline. The Licensing Committee, I understand, has agreed to license doxycylcine to the company even though IDPL and Indian Companies are in a position to manufacture it and to meet the entire demand of the country."[81]

Finally, the claims made by foreign companies regarding transfer of technology were placed in perspective. According to Dr. Ranen Sen who was a member of the Hathi Committee: "Nothing is done there (in the Laboratories belonging to the drugs companies). In fact, the Indian scientists who are employed there themselves told us very secretly that they ...(can go) only upto a certain process and not beyond that"[82]

K.S. Chavda intervened to point out a typical case of a small Indian company, Nitson Laboratories, Bombay which produced basic drugs while the American company, Warner Hindustan, formulates them.[83]

A further dimension of the 'technology argument' was not missed by MPs. If the multinationals were bringing in technology in fields in which they had expertise why were they diversifying into other areas?

Tridib Chaudhuri observed: "the Union Carbide (is) as we all know specialist in a certain line of production. There also they have a near monopoly position. But they are now going of all things into garment exports. India Tobocco company, which everybody knows is a subsidiary of the Imperial Tobacco Company -- Imperial Tobacco is one of the topmost British multinational - has been allowed to go into the export of marine products, trawler building ... hotel business, then export of bicycle parts, in the name of diversification."[84]

In respect of the problem of underinvoicing, government representatives admitted that the proposed Foreign Exchange Regulation legislation did not fully deal with the problem. In the Joint Committee, Shri Jyotirmoy Bosu asked the Additional Secretary in the Ministry of Foreign Trade: "How would you compare (tea sent on consignment basis) with the prices prevalent in the London auction unles you know what kind of tea was being sent on consignment basis? There are different varieties of tea. How would you compare these unless you had somebody to check what was being sent on consignment basis and what was the price of this particular variety? He was told by the bureaucrat" "if it is taking out cheese and calling it chalk, then we could have a problem."[85]

The official attitude was also revealed rather well in another exchange that followed. Details were sought in the committee regarding "exports made by manufacturers other than their own products"[86] The Additional Secretary replied: "I do not think it is a bad thing. I see there is no harm if a manufacturer on a voluntary basis, exports items which are not his products."[87]

Jyotirmoy Bosu persisted: "A foreign controlled company is making Coca-Cola and soft drinks like Fanta or whatever it is. It exports cashew nuts and publishes in the papers that Coca-Cola earns Rs. 3 crores by export. They never add that they export cashewnut also. Surely they are taking out some Indian exporter's quota. Why have you not full control on the foreign owned companies so that all the foreign exchange that they earn is remitted to India?"[88] To this the Additional Secretary replied, "I am sorry if I am differing from you." About the export of tobacco, Shri Bosu had this to say:

> "I am aware of the fact that a lot of underinvoicing takes place not in cash but in kind in tobacco export. The top grade tobacco is sent out to the parent firm, viz, BATC. It is invoiced for inferior grade. Thereby those firms which have financial interest are benefited and here as far as their local consumption is concerned they over-invoice. The inferior grade tobacco is entered in their account. The Indian concern is made to pay more for inferior tobacco and the profits are thus brought down"[89]

The broad shifts and twists in policy during this period have been discussed elsewhere in this chapter. But whatever the policy framework may have been at any point in time it was almost invariably bent in favour of multinational companies. This was the result of several

institutional weaknesses in the regulatory administration. The case of Hindustan Lever and the manner in which various proposals for expansion were cleared by government is illustrative of this. H.K. Paranjape has noted that

> "the net result of the various approaches adopted by the licensing authorities at different stages of the development of he NSD industry has been that Hindustan Lever was able to forge ahead of its Indian competitors. Considerations which were thought important for supporting an application from Hindustan Lever were sometimes not considered appropriate or valid when considering applications of Indian companies; and considerations which came in the way of accepting the applications of Indian companies were considered unimportant when dealing with Hindustan Lever's applications".[90]

This applies to almost every organ or department of the state that has been entrusted with responsibility in the regulation of industry.

Paranjape has pointed out that when the government issued in 1970 a list of "core industries" in which foreign subsidiaries and large houses would be expected to concentrate, synthetic detergents were not included in it. But soon this was substantially modified. When the industrial licensing policy was changed in 1973 a new list was prepared of "core industries of importance to the national economy in the future, industries having direct linkages with such core industries, industries with a long term export potential". Synthetic detergents were included in this list.

This was done in spite of the fact that under the illustrative list, issued in 1968, of areas where no financial or technical collaboration was normally considred necessary, "Synthetic detergents" (formulations)" was mentioned as one such area. This continued to be included in the list until at least May 1976.[91] The company's proposal for the production of Sodium Tripolyphosphate (STPP) was dealt with in a similar manner. Since STPP is a raw material for NSD producers this was bound to strengthen the dominance of Hindustan Lever in the NSD market. This was so particularly because, as the other NSD producers in the country pointed out, it would enable Hindustan Lever to obtain nearly half of its raw materials at cost price.[92]

Yet this consideration was effectively disregaded by the Monopolies and Restrictive Trade Practices Commission in clearing Hindustan Lever's application.

It sought to get round the problem by suggesting that a certain proportion of Hindustan Lever's output should be sold to other producers of NSD. The commision founded its belief that the proposal would not enable Hindustan Lever to increase its dominance in the field of NSD simply on the ground that "the present proportion of Hindustan Lever in synthetic detergents "will get substantially reduced in future." Thus purely on the basis of an unsubstantiated hope the commission rejected important arguments against the induction of Hindustan Lever in the field of STPP.

Finally, let us consider the working of the government's apparatus for scrutinising claims regarding technology. An objection was raised that Hindustan Lever and its parent company had no experience in the field and that technology would need to be imported. The government's order in March 1974 on the case, issued in the background of the MRTP Commission's report, took the view that Albright, Morarjee and Pandit, the existing producer, had also had to import technology and, further, that Hindustan Lever had agreed to use indigenous technology to the maximum extent possible. Subsequent events showed that such arguments were an eyewash. As Paranjape observes:

> "As was clear to everyone, Hindustan Lever sought foreign technical knowhow and the government approved it. The only peculiar part of it was that the technical knowhow was obtained by Hindustan Lever from Albright, Wilson and Company, the parent company of Albright, Morarji and Pandit, which had also provided the knowhow for the production of STPP to the latter. Thus it was a clear case of repetitive import of knowhow, at an extra cost in terms of foreign exchange to the country. And all for the purpose of helping a foreign-owned company to set up production in an area for which they had no special technical knowhow."[93]

The agreement entered into by Hindustan Lever for technology already available in the country envisaged a payment to Albright, Wilson and company of a technical knowhow fee of 300,000 pounds sterling, an engineering fee of 100,000 pounds and royalty of 6 pounds per tonne of STPP that may be produced in the plant in five years. It is commonly believed that Hindustan Lever used political contacts to get its case through. Thus it has been suggested that the chief minister of West Bengal in 1973, was using his considerable influence with the Centre in favour of Hindustan Lever.[94]

That the official machinery and attitude on the examination of proposed agreements regarding technical collaboration or the rendering of technical services continued to be a nebulous one was noted by the Public Accounts Committee in 1974-75. The commitee studied the tax assessments of National and Grindlays Bank (now Grindlays Bank) a foreign bank which has accumulated large deposits from the Indian public.[95] The committee noted that the Bank had in 1969 entered into a fiveyear agreement with the First National City Bank of New York, "according to which the National and Grindlays Bank gets technical services in respect of traning programmes, operational practices, credit policy and administration, development and expansion of National and Grindlay's Bank's offices and business".

In respect of this the following amounts were paid to the First National City Bank.

1969: Rs. 21,60,000
1970: Rs. 38,35,000
1971: Rs. 59,29,000
1972: Rs. 27,94,752

Could such payments be considered to be justified? The committee wished to know "whether the services, namely training programme, operating practices, credit policy and administration, development and expansion of the National and Grindlays Bank's offices and business could be treated as technical knowhow in its true sense"[96]

The income-tax officer concerned with the case had made the following observation refusing certain deductions claimed by the bank.

> It may be noted that the National & Grindlays Bank Ltd. is itself a bank of long standing and repute and has many branches throughout the world. It is not, therefore, understood why it should approach another bank for getting its staff trained. It is seen that the First National City Bank has acquired 40 per cent shares of National & Grindlays Bank as on 1.4.1969 and the training has also started from that date... If the expertise at the disposal of First National City Bank...was so great as to benefit another bank of long stadning, National & Grindlays Bank would have liked to get all its branches trained by First National City Bank...The fact that only Indian and Pakistan branches were chosen for training clearly shows that the expertise available with the First National City Bank was not overwhelmingly superior to the expertise of National & Grindlays Bank. The main object appears to have been to exercise control.[97]

Yet this finding was set aside by the concerned Appellate Assistant Commissioner who allowed the deduction sought by the bank. The reasoning given by him was that the "extent of the services rendered by First National City Bank to the appellant company must be deemed as a composite whole and not piecemeal, under the circumstances it will be almost impossible to visualise the results of the services rendered in the year under review. Such results will necessarily be projected over a long period of time. The committee was moved to comment that it was "distressed that the assessment of a foreign banking company that has built up a large business out of the deposits of Indian customers should be scrutinised so superficially".[98]

Such instances go to show how even the ordinary meanings of specific regulations are often stretched to the benefit of foreign companies. Examples like these can be multiplied.

It is possible that one mechanism by which this happens is the employment prospects offered by the company concerned to strategically placed individuals in government. The following exchange between the Public Accounts Committee which examined the Grindlays' case and the Chairman of the Central Board of Direct Taxes who appeared before it as a witness is instructive:

> "The Committee desired to know who was the Head of the Tax Department of the assesse Bank. The witness stated: 'Shri -- is the Head of Tax Department of the National and Grindlays Bank. He was an Income-tax officer in the Income-tax Department. He resigned in 1966 from the Department and joined the bank'. When the committee enquired whether Shri---had ever assessed the National and Grindlays Bank, as income-tax officer, the witness replied in the affirmative.[99]

Section IV: **The Afermath of the Emergency**

A question that remains unsettled here concerns the extent to which the concessions to foreign capital during the emergency were dictated by the need to appease western powers that had reacted unfavourably to the emergency. But from the satisfaction that these governments later began to evince on the new policies, it could hardly have escaped the attention of the Indian government that further moves in that direction would pay international political dividends as well. During this period, starting with 1973-74, at the time of the first oil price crisis, there was an increased emphasis on exports which engendered some

debate on whether India had come to see virtues in the Brazilian 'model' of export oriented industrialisation. A spate of committees were appointed to study the export potential of various sectors. In January 1974 the government had appointed the committee on engineering exports, headed by Mantosh Sondhi, Secretary, Ministry of Heavy Industry which submitted its Report in 1979.[100] Similarly, a task force was later appointed on agricultural exports in. This group submitted a report in December 1978.[101]

With the assumption of power at the Centre by the Janata Party in March 1977, an attempt was made by representatives of foreign-controlled enterprises to have the implementation of FERA postponed for some more time. At a meeting with the Union Minister for Law, Justice and Company Affairs, on May 21, 1977, the president of ASSOCHAM, Mr. H.P. Nanda, suggested that the one or two year period allowed to foreign companies to dilute foreign holdings and comply with FERA should be extended further.[102]

ASSOCHAM also successfully influenced at this time the definition of the foreign sector for the purposes of industrial licensing. The ASSOCHAM President, Mr. H.P. Nanda, met the Secretary, Department of Heavy Industry, Mr. V. Krishnamurthy, on May 30, 1977 to argue that the authorities should not prescribe the limit of 40 per cent direct and indirect foreign participation for the purpose of exemption from licensing under the Industries (Development and Regulation) Act. He felt that only direct participation, as in the FERA, should be taken into account for this purpose.[103] It is significant that on April 4, 1978 the government issued a notification which conceded the ASSOCHAM demand. Under this, only those industrial undertakings having foreign equity of more than 40 per cent in the paid-up equity capital of the company held directly by the foreign company alone will be treated as a foreign company under the licensing provisions.[104]

In the following month, ASSOCHAM made an attempt to seek exemption from basic principles of FERA in one respect. On June 22, 1977 it suggested in a letter to the Reserve Bank of India that once a company had been granted permission to carry on activities in India under sections 28 and 29 of FERA it should not be discriminated against

through adoption of different norms for accepting deposits from the public from those applicable to Indian companies.[105] This meant that treatment on par with Indian companies which would normally become available with dilution upto 40 per cent should be available merely because the company concerned had obtained the necessary permission under sections 28 and 29 i.e. even if its foreign equity was higher than 40 per cent.

At this time, ASSOCHAM lobbied also for a more liberal import policy. In its observations regarding the Committee on Import of Capital Goods (set up in September 1976, with Mr. Mantosh Sondhi, Secretary Department of Heavy Industry as Chairman), ASSOCHAM argued that it was necessary to move towards a 'more open economy' in order to build up 'the strength, capacity and competitiveness of India's exports'. Such a move was also necessary according to it, for the 'health and progress of domestic industries'. ASSOCHAM argued that if there was to be any further protection of the capital goods industry this should be through tariffs alone and not through administrative scrutiny from the "indigenous angle".[106] Clearly, it resented whatever limited attempts had been made towards import substitution in the field.

The Janata Government did not of course go out of its way to discriminate against foreign capital and, in fact, was often quite obliging. Its Statement on Industrial Policy in December 1977 reiterated that "For all approved foreign investment there will be complete freedom for remittance of profits, royalties, dividends as well as repatriation of capital subject, of course, to rules and regulations common to all. As a rule, majority interest in ownership and effective control should be in Indian hands though Government may make exceptions in highly export-oriented and/or sophisticated technology areas. In one hundred per cent export-oriented cases, government may consider even a fully owned foreign company."[107]

In 1978 and 1979 the recommendations of the Import-Export Policies and Procedures committee (also known as the Alexander Committee) and the Sondhi Committee (referred to earlier) led to the liberalisation of the import policy, particularly in the case of capital goods, raw materials and components as had been desired by ASSOCHAM. The Alexander Committee

had been appointed by the government in 1977. Apart from Mr. P.C. Alexander who was chairman, its members were Mr. R.N. Malhotra, Mr. M.R. Shroff, Mr. K.V. Seshadri, Mr. Bimal Jalan, Mr. P.K. Kaul, Mr. Vijay Kelkar, Mr. G.S. Sawhney, and Mr. V.R. Panchamukhi, who was member-secretary. The import policy for 1978-79 was formulated keeping in view the recommendations of the Alexander Committee.[108] The imports of raw materials and components was placed on Open General License for actual users, so long as the items concerned were not included in the banned, restricted or canalised lists. The Committee which submitted its final report on January 31, 1978 recommended in regard to raw materials, spare parts and components for industrial users, that import licensing should be confined to items where the existing tariffs are not high enough to provide protection to domestic industry, and where a specific objective was served by resricting imports through the quota system."

The Government showed itself willing also to consider further concessions in its industrial policy. On October 31, 1977 it set up a study group on industrial regulations and procedures under the chairmanship of Mr. G.V. Ramakrishna, Additional Secretary, Department of Industrial Development.[109] The panel's report, submitted in February 1978, led to the raising of the limit for exemption from licensing from Rs. 1 crore to Rs. 3 crores. Moreover, the provision of exemption from licensing to already licensed units so long as aggregate investment does not exceed Rs. 5 crores was deleted, as recommended by the Committee. The group made some recommendations also for the streamlining of foreign collaboration procedures.[110]

Following this, yet another committee was appointed, in October 1978, composed almost entirely of prominent industrialists, to suggest measures for the further relxation of industrial controls. The Committee, known as the Committee on Industrial Licensing, was headed by Mr. H.P.Nanda. It had as its members: (1) M.V. Arunachalam (2) P. Anubhai (3) C. Amin (4) R. Bajaj (5) J.H. Doshi (6) S. Jalan (7) Dr. F.A. Mehta (8) I.T. Mirchandani (9) P.K. Nanda (10) R.J. Shahaney (11) L.M. Thapar and (12) T. Thomas. This panel, which submitted its report in February 1979, expressed itself outright against the use of industrial controls to subserve socio-economic objectives. It proceeded to observe: "on the economic plane, the two principal objections to free

import of technology have been that (i) it would lead to a drain on our meagre foreign exchange resources and (ii) it would hamper local R & D.

The committee feels that neither of these arguments is valid today...[111]

The official status of this committee is indeterminate. It would appear that in contrast to the usual procedure, there was no Government of India resolution setting out the official intention to appoint such a Committee. Yet the "Convenor" of the committee, Mr. H.P. Nanda, could address himself in a letter to the Union minister for industry, Mr. George Fernandes, in the following terms :

> You will recall, Mr. Minister, that the specific terms of reference of our committee were as follows:-
>
> a) To review the existing procedure relating to grant ofletters of intent/industrial licence, approvals for foreign collaboration, import of capital goods, registration with DGTD etc, and
>
> b) To suggest ways and means of improving procedures to eliminate avoidabledelays and to make recommendations in this regard.[112]

Thus it is obvious that the committee was assigned specific tasks to perform. Moreover, as Mr. Nanda noted in the letter cited above, the services of Mr. S.S. Marathe, secretary, ministry of industry, Mr. P.C. Nayak, secretary of the Secretariat for Industrial Approvals and of Brig. Shahaney of DGTD were made available to the committee. This is a clear-cut example of the top rung of the Indian bureaucracy being placed in a position of subordination to a group of influential industrialists in the country.

It is significant that the committee made its intervention, particularly so far as import of technology was concerned, at a crucial juncture when the policy on foreign collaboration for public sector undertakings was under attack in Parliament and outside it. The wide-ranging BHEL-Siemens deal, for example, was under sharp attack in Parliament and the press for having brought the giant BHEL under the thumb of a multinational company.[113]

The Committee on Controls and Subsidies with Vadilal Dagli as Chairman and Era Sezhiyan, Begaram Tulpule, L.C. Jain and Sanjoy Sen as

members, made a general call for 'rationalisation' of controls in its report submitted in May 1979.[114] It conceded, however, the desirability of controls to subserve public policy.

The Janata government followed the earlier precedents of allowing foreign companies to encroach upon the small-scale sector.

Small-scale units found, for instance, that they were being elbowed out of the manufacture of high-output amplifiers (which were reserved for the small-scale sector) in the name of manufacturing "tuner amplifiers"[115] Similarly, the Indian Chemical Merchants & Manufacturers Association lodged a protest against the licence the Centre had issued to a multinational for the manufacture of menthol in disregard of an earlier announcement that the industry was reserved for the small-scale sector.[116]

The Swedish-controlled WIMCO 'the only mechanised match manufacturing unit in the country", also felt emboldened to threaten the government that it would have to close down and render 4000 workers unemployed as a recent increase in excise duty was pricing it out of the market.[117] Although this was a very provocative manner of addressing the government, which revealed that the Company could hardly have been operating with the public interest in mind, no measures were taken to ensure that such threats did not recur. In fact, far from this the Union Industry Ministry responded by abandoning its declared programme of "phasing out" the large units from areas reserved for the small-scale and cottage industries. On June 1, 1979 it was reported in the Financial Express, New Delhi:

> "...after a series of discussions with the large-scale soap manufacturers, Ministry offcials have come round to the view that, after all, it may be possible for both the large and small-scale units to co-exist in the soap industry... The crisis in the WIMCO match factory has strengthened this view, rather than weakened it."

It may also be pointed out that in the course of the year during which this threat was issued by WIMCO, the company made a net profit of Rs. 17.04 million. In the following year, the net profit rose to Rs. 26.89 million. By contrast, the provision for taxation in the three years 1978-80 was only Rs. 0.70 million, Rs. 7.70 million and Rs. 0.29 million respectively.[118]

Even so, the attitude of foreign capital toward the Janata-Lok Dal regimes was a wary one. For example, Mr. Orville Freeman, President, Business International and an important representative of American business, said in Calcutta on October 9, 1978 that "India is not a good place for the US business investments... It is probably one of the last countries that US business interests would choose to invest in, as they are made to feel unwelcome and uncomfortable".[119]

Similarly, the Japanese investors also professed to find the laws and procedures on foreign investments in India "stringent". Dr. S. Nagano, leader of a Japanese business delegation was quoted to this effect in the Financial Express, New Delhi of December 13, 1978. He observed after the eleventh joint meeting of the Indo-Japanese Business Cooperation Committee in New Delhi on December 12, that the "legal framework of policies" and taxation laws were partly responsible for the "scanty interest on the part of Japanese enterprises in investment in joint ventures in India".

After the political crisis at the Centre in July 1979, leading to the fall of the Janata Government, worries were expressed on behalf of foreign capital regarding the changing political situation. It was reported in The Economic Times, New Delhi of September 2, 1979 that the "fast changing political situation in the country" has produced "adverse reaction among agencies whose advice influences foreign investors". An "urgent note of caution" was said to have been sounded in International Reports, described as "the world's oldest advisory service in all fields of international finance". The publication discussed "the distinct possibility of Mrs. Gandhi coming back to power and its baleful consequences." (our emphasis) It is significant, as The Economic Times noted, that the International Reports analysis was published before Mr. Charan Singh recommended the dissolution of the Lok Sabha.

Reflecting a close study of the Indian scene, the International Reports examined the possibility of a mid-term poll and "spoke of the prospect of significant gains to be made by ex-Prime Minister Mrs. Indira Gandhi and the Moscow-backed Communist Party". The analysis was evidently circulated widely among "bankers and multinational companies abroad". It warned that "financial interests will find it advisable to

minimise their exposure and to hedge their positions." It further speculated that "whoever wins" could be expected to adopt anti-business and anti-industry policies with a rural bias and an attitude of national protectionism.

The importance attached by foreign capital to political events, the closeness with which these are followed by it and reacted to are reflected in The Economic Times report, which continues:

> These comments, coming as they do against the background of US investors' worries about 'unfavourable climate for investment in India have made senior executives in the multinational companies rethink about their expansion or diversification plans.
>
> The foreign drug companies in particular take these signs seriously and say that the attitude towards them symbolises the approach towards... foreign capital in India.
>
> They point out that every coalition or every party that is contesting the elections has in it a strong lobby against foreign capital.

It went on:

> The political scene visualised by the International Reports makes interesting (if not frightening) observations which include, apart from Mrs. Gandhi coming back to power, the possible fragmentation of the country. There is a possibilty of the Soviet Union gaining more influence through the Congress by Mrs. Gandhi and the Communist Party, the report adds. The only hope, according to the report, is that there are some states where the administration is more efficient than even the Central Government. They include Maharashtra, Gujarat and Punjab. The forebodings about India's economy and political situation as mentioned by the International Reports have to be taken in conjunction with the feelings of foreign investors vis-a-vis the FERA regulations. There has been a considerable opposition from foreign investors to abide by the FERA regulations. And there is no denying that it has taken considerable nudging from the authorities in India to dilute the foreign holdings.

Foreign capital found it expedient also to develop a working relationship with forces on the left of the Indian political spectrum. The inauguration of Hindustan Lever's industrial phosphate plant at Haldia on October 13, 1979 came to epitomise this understanding. The chief minister of West Bengal, Mr. Jyoti Basu, was quoted as holding said in his inaugural speech that his Government "would have no objection to the multinationals already operating in the country, for the latest know-how was necessary to develop the state, but would not encourage new MNCs to come in".[120] According to the same report, Mr. Basu added: "The misgivings about MNCs... stemmed from newspaper reports, mostly in foreign countries, that the multinationals operated not only in the economic sphere but in the political sphere too." (our

emphasis). He, however, added: "One, therefore feels a little nervous that there may be subversion in economic and political spheres." In a significant reply, Sir David Orr, Chairman of Unilever, was reported to have said at the function that like any national company, a multinational wished to make profit". But, he went on, "its investments create wealth and employment, pay taxes, contribute towards import substitution and export stimulation". According to him, if emphasis were put only on profits, a "misleading mythology" about multinationals would be created.

The policy of self-reliance that has so far been generally followed in the oil sector began to waver considerably during the Charan Singh regime. By October 1979, there was open speculation that multinationals may again be allowed to play a crucial part in oil exploration. The Financial Express carried the following report on October 25, 1979:

> A major change in the government oil exploration policy which will reopen offshore areas to foreign companies on production sharing basis, is now on the cards. In 1974 and 1975, the government had given contracts for oil exploration and exploitation on production-sharing basis to three foreign parties for Bengal, Orissa, Kutch and Cauvery basins. Since these companies were interested in only making a quick buck and no oil or gas was found in the few holes drilled by them, these foreign companies backed out.
>
> Wiser by the experience, the government subsequently decided that in future foreign parties would be engaged only as drilling contractors and not on crude sharing basis.
>
> However, the worsening crude oil crisis with leap frogging prices and shrinking supplies in the international markets have stressed the need to build up proven reserves of crude oil at the earliest. This new situation has dictated a change in the policy. (our emphasis)

In fact, however, Government's keenness to attract the foreign companies was so marked that the latter raised their stake. They did not care seriously to bid for the offshore blocks which were later offered to them. The demarcation of these blocks, especially the Godavari offshore block, was later changed to mollify them and to bring them to the negotiating table. Ultimately, after the Congress (I) government came to power a little later, it was announced that an American company, Chevron, was awarded the Saurashtra-II offshore block even though the terms for this remained to be settled.[121]

FOOTNOTES

1. See S.K. Goyal, Some Aspects of the operations of Multinaional Corporations in India, Indian Institute of Public Administration, New Delhi, mimeograph, (n. 2).

2. Reserve Bank of India, RBI Bulletin, June 1974, p. 1048.

3. Reserve Bank of India, RBI Bulletin, op. cit, p. 1044.

4. These had been endemic even in the earlier period of increased liberalisation; witness, for example, the appointment of and the reports submitted by the Monopolies Inquiry Commission and the Managing Agency Enquiry Committee in 1964 and 1965 and the government decision in July 1966 to abolish the managing agency system in cotton and jute textiles, cement, paper and sugar industries. But these contrary tendencies now came increasingly into the open.

5. AICC Economic Review, New Delhi, June 1, 1967, pp. 16-17.

6. See AICC Economic Review, New Delhi, July 1, 1967, pp. 11-12, for the text of resolution on 'Implementation of Congress Programmes', adopted by the AICC at its meeting held on June 23-25, 1967 at New Delhi.

7. Capital, May 11, 1967, p. 985.

8. Capital, April 13, 1967, pp 754-756.

9. Michael Lipton and John Firn "The Erosion of a Relationship: India and Britain since 1960," Oxford University Press, London, 1975, p. 84.

10. INDIA, Indian Investment Centre: Foreign Investment and Collaboration: Guidelines, New Delhi, December 1968.

11. Lipton and Firn, op. cit, p. 88.

12. Capital, January 9, 1969, pp. 64.

13. Lipton and Firn, op. cit, p. 91.

14. Idid.

15. Ibid, pp. 87-88.

16. See K.A. Hamied, "A life to remember: An Autobiography", Lalvani Publishing House, Bombay.

17. Quoted in Lipton and Firn op. cit, p. 95 who rely on The Financial Times, London, June 10, 1969.

18. Lipton and Firn, op. cit, pp. 257-258 based on a report in The Times, London, July 22, 1969.

19. ASSOCHAM 50th Annual Report, for the year ended 31st October 1969, p. 4

20. "Attracting More Foreign Capital"... by a special correspondent, Capital, July 10, 1969, p. 55.

21. Ibid.

22. Idem.

23. India, Ministry of Industrial Development, Internal Trade and Company Affairs Report of the Industrial Licensing Policy Inquiry Committee, (Main Report), Delhi Manager of Publications, 1969, (hereinafter referred to as ILPIC), p. 16.

24. ILPIC, op. cit. p. 14.

25. ILPIC, op. cit, p. 14.

26. Quoted in Government of India, "Industrial Policy: Government Decisions," Press Note February 2, 1973 Also Appendix to Estimates Committee, (1967-68), Nineteenth Report.

27. See Industrial Policy Resolution, New Delhi, 30th April 1956, Reprinted in India, Ministry of Industry Guidelines for Industries Part I, Policy and Procedures 1979 Section II. pp. 1-5. (paragraph six).

28. It may be useful here to recall the writings of Michal Kalecki (See for instance, his Essays on Developing Economies, Harvester Press, 1976) in which he stresses the relative autonomy ~~how~~ foreign from capital that 'intermediate regimes' must strive to attain. See also K.N. Raj, "The Politics and Economics of Intermediate Regimes," Economic and Political Weekly, July 7, 1973.

29. See Nagesh Kumar, Regulating Multinational Monopolies, Economic and Political Weekly May 1982.

30. India Ministry of Law Report of the Managing Agency Enquiry Committee, Department of Company Affairs Manager of Publications Delhi, The Committee was headed by I.G. Patel. At the time of the submission of its report in March 1966 it had as its members K.L. Ghei, B.N. Adarkar, K.B. Rao, A.V. Venkateswaram and B.P. Roy who was member-secretary.

31. Ibid, pp. 21-22.

32. Ibid., pp. 28-29.

33. Ibid., pp. 31-34.

34. Ibid., p. 36.
35. Ibid., p.38.

36. Lipton and Firn, op. cit, pp. 88-89

37. Ibid., p. 258, citing The State Bank of India, Monthly Review of May 1971, they observe further that "... it would seem that British Companies wrote some of 6,420 mn of net premium income in India during 1969. How much of this found its way to Britain under the invisibles account is not known." (Our emphasis).

38. See V. Ganesan, "Domestic Participation in Ownership and Control of Existing TNCs in Developing Countries," Working Paper submitted to the Workshop on Regulating Foreign Investment and Transfer of Technology with Transnational Corporations held in Dacca, Bangladesh, 23-26 June 1980. Our subsequent discussion of the dilution formula of 1972 and the enactment of FERA is based largely on Ganesan's understanding of these issues.

39. Ibid., p. 4.

40. Ibid., p. 5.

41. Idem.

42. Ibid., p. 6.

43. ASSOCHAM 54th Annual Report for the year ended 31st October 1973, p. 6.

44. Ibid., p.7.

45. Idem.

46. India, Press Information Bureau, Press Note dated February 2, 1973 "Industrial Policy: Governments Decisions." mimeograph This is reprinted in India, Ministry of Industry, Department of Industrial Development, Guidelines for Industries, Part I, Policy and Procedures, June 1979, Sec. II. pp. 6-9. (See Annexure 'I')

47. Ibid., See II. pp. 8-9. A list of the Appendix I industries is given in the Annexure to the report.

48. Ibid., Sec. II. p. 7.

49. India, Ministry of Petroleum & Chemicals Report of The Committee on Drugs and Pharmaceutical Industry, Controller of Publications, Delhi, 1975.

50. See Government of India,Tariff Commission, various reports

51. See V. Gaurishankar, Taming the Giants, Vidya Vahini, New Delhi, 1980 p. 114.

52. *Ibid.*, p. 57.

53. Ganesan, *op. cit*, p. 11

54. Ganesan, *op. cit*, pp. 11-12.

55. "Survey of Foreign Financial Collaboration..." *RBI Bulletin*, June 1974. See also IIFT study cited above, p. 29.

56. India, Department of Industrial Development, *Guidelines for Industries* (1976-77). Notification of February 16, 1973, Schedule II, p. 48.

57. See India Ministry of Industry, *Guidelines for Industries, Part I, Policy and Procedures*, Section IV, p. 15 where the amendment has been attributed to the notification of 16 November 1976.

58. See discussion regarding the ASSOCHAM president's representation to the department of heavy industry on May 30, 1977 and notes below.

59. Lok Sabha Secretariat, Joint Committee on the *Foreign Exchange Regulation Bill*, 1972, Evidence, New Delhi, April 1973, p. 201.

60. ASSOCHAM memorandum to the Joint Committee, obtained privately.

61. Memorandum of the Indo-American Chamber of Commerce to the Joint Committee, obtained privately.

62. Memorandum submitted by FICCI to the Joint committee, obtained privately.

63. Associated Chambers of Commerce and Industry of India, Workshops on *Foreign Investment - Opportunities and Problems*, *op. cit*, pp 89 - 90.

64. *Ibid.*, p. 91.

65. *Ibid.*, p. 9.

66. *Ibid.*, p. 92.

67. Ganesan, *op. cit*, p. 25

68. The figure 235 is from Ganesan, *op. cit*, p. 19. The figure of 186 is complied from lists published in ASSOCHAM Parliamentary Digest, 1981 (14.9.81 - 18.9.81) No. 16, pp. 55 - 86.

69. Ruddar Dutt, and K.P.M. Sundaram, *Indian Economy*, S.Chand & Company, New Delhi, 1978, p. 141.

70. *ASSOCHAM Circulars*, July - December, 1975, The Associated Chambers of Commerce and Industry of India, New Delhi.

71. *Lok Sabha Debates* (LSD), April 15, 1976. col. 205.

72 Ibid.

73. LSD, op. cit, col. 210.

74. LSD, April 30, 1976, col. 293.

75. Ibid., col. 284.

76. Idem.

77. Lok Sabha Debates, April 15, 1976 col. 229.

78. Ibid.

79. Idem.

80. LSD, April 15, 1976, col. 242.

81. Ibid., col. 241.

82. LSD, April 30, 1976, cols, 270-271.

83. Ibid. p. 271.

84. LSD, April 30, 1976. col. 282.

85. Lok Sabha Secretariat, Joint Committee on the Foreign Exchange Regulation Bill, 1972. April 1973. p. 96.

86. Ibid., p. 103.

87. Ibid., pp. 103-104.

88. Ibid. p. 104.

89. Ibid. p. 463.

90. H.K. Paranjape, The Government of India and Hindustan Lever: Controlling Multinational Monopolies, mimeograph.

91. Ibid.

92. Idem.

93. Idem.

94. Paranjape, op. cit, citing "Monopolies Commission at a dead end" Economic & Political Weekly, October 20, 1973.

95. Lok Sabha Secretariat, Public Accounts Committee (1974-75) (Fifth Lok Sabha) 176th report, April 1975.

96. Ibid., p. 22.

97. Ibid., p. 75.

98. Ibid., p. 61.

99. Ibid., p. 43. The name of the person mentioned in the Committees report has been deleted by us since our purpose is to draw attention to the mechanism rather than to pick on individuals.

100. The Committee on engineering exports had among its members Brig. B.J. Shahaney, Dr. A.K. Ghosh, M. Narasimhan, R. Tirumala, S.M. Ghosh, all senior officials of government.

101. India, Ministry of Agriculture and Irrigation Report of task force on Agricultural Exports, n.p. December 1978. The task force was headed by G.V.K. Rao secretary department of agriculture and rural development.

102. ASSOCHAM, 58th Annual Report, for the year ending October 1977, pp. 9-10.

103. Ibid., p. 10.

104. See India, Ministry of Industry, Guidelines for Industry, Section IV p. 15 where the change has been attributed to the notification of April 4, 1978.

105. ASSOCHAM, 58th Annual Report, for the year ending October 1977, p. 13.

106. Ibid., p. 31.

107. Janata government's statement of industrial policy, December 23, 1977. Reprinted in Guidelines for Industries, Sec II pp. 10-17.

108. India, Ministry of Commerce, Civil Supplies and Cooperation (Department of Commerce), Report for 1978-79.

109. India, Department of Industrial Development ministry of Industry, Report of the study group on Industrial Regulations and Procedures, n.p. February 1978.

110. Ibid., pp. 21-22.

111. See Report of the Committee on Industrial Licensing, Published by the Convenor and Members of the Committee on Industrial Licensing, Faridabad, 1969.

112. Ibid., pp. 1-2.

113. See P. Ramamurti. Stop BHEL's Dangerous Truck with Siemens's, Centre of Indian Trade Unions, New Delhi, 1978.

114. India, Ministry of Finance, Committee on Controls and Subsidies n.p. New Delhi, 1979, passion.

115. Financial Express, New Delhi, June 22, 1978.

116. Financial Express, July 25, 1978.

117. Economic Times, New Delhi, April 2, 1979.

118. WIMCO Limited, Annual Reports for the years 1978,1979 and 1980.

119. Economic Times, October 10, 1978.

120. Financial Express, October 14, 1979

121. Financial Express, December 17, 1981: ("Offshore Search : Chevron awarded Saurashtra Block")

CHAPTER VI

POST -- 1980 TRENDS : A REVIEW OF THE PULLS AND PRESSURES

'As in the fable, it is the tiger upstream who pollutes the water, but the lamb downstream who is accused of not taking corrective action'. (From Business Standard, September 17, 1981, editorial entitled "IMF Hoists the Signal").

After the return of Mrs. Gandhi to power in January 1980 the new regime set about making drastic changes in the industrial policies that had been followed so far. Soon after assuming power, the Congress (I) government found it necessary to extend assurances to foreign investors. Within a few weeks of the Congress (I) government's assumption of power, no less a personage than the Vice-President, Mr. M. Hidayatullah, publicly called for free entry to multinationals into the country. Inaugurating the World Marketing Congress session at New Delhi on February 10 the Vice President said: "Our prosperity is bound up with our entering foreign markets and the more we shut foreign competition out the more shall we be shut out also. Enlargement of world markets for us will mean also our admitting some transnationals and international agencies."[1] Mr. Hidayatullah was quoted as having said that multinationals had better resources for research and development and were thus able to provide variety and better return. He went on to add that local producers were free from competition and therefore could "afford to sit pretty and purvey the same goods year in and year out". Mr. Hidayatullah expressed his opposition to the entire economic strategy followed so far: "Autarky has been the aim of India for a long time and we have erected high protective walls round many of the products. How far this has been effective in improvement in the quality of goods and their performance is a moot question." Significantly, Mr. Charanjit Singh, a Congress (I) MP considered close to the party high command, was elected chairman of the Marketing Congress at this session.

The Vice-President's statement raised eyebrows in political circles. The late Mr. Jyotirmoy Bosu observed that it was not clear whether Mr. Hidayatullah was speaking on behalf of the Government and whether before making such a speech he had consulted the government in the matter, an issue that was to remain unclarified.[2]

Within a week of the Vice-President's statement, Mr. Orville L. Freeman, who was leading the US delegation to the Indo-US Joint Business Council, expressed the hope that now there would be more capital investment and technology flow from the United States to India and generally welcomed the new government.[3] Following Mr. Freeman's observation, the Union Minister of Commerce and Civil Supplies, Mr. Pranab Mukherjee speaking also at the World Marketing Congress which had been addressed by Mr. Hidayatullah earlier, took a similar attitude towards multinational companies. He asserted that developing countries should seek the help of multinational companies for penetrating both the domestic and foreign markets.[4] The reference to the need for using multinationals to penetrate the domestic market is particularly curious since it suggests that multinationals are better equipped than even Indian state agencies to reach out to all parts of the country. This, in spite of the obvious fact that they have only the Indian transport and distribution system at their disposal.[5]

Foreign capital, for its part, was quick to see the opportunities that had now opened out. Representatives of Siemens India Ltd. for example, spoke out in favour of a stable relationship with host governments irrespective of the domestic political situation in the host country. This was significant in view of the concessions Siemens had received from the Janata Government. Dr. H. Langer, managing director of Siemens India Ltd, said in Bombay on March 6 that the political situation in a country did not have any influence on the investment of a "truly multinational company."[6] He pointed out that Siemens had "investments and collaborations" in America as well as in the Soviet Union and that the company operated in as many as 123 countries of various political persuasions. A day later The Financial Express reported that according to a director of Siemens A.G., Mr. K.G. Kadegge, "the investment climate in India is good now".[7] He added that Indian engineers were second to none and that skilled labour was also available in plenty. Within a week of this it was reported that Siemens would be allowed to retain foreign equity at 51 per cent.[8] This was a reversal of an earlier decision under which Siemens India, along with other companies had been asked to dilute foreign equity to 40 per cent.[9]

The liberal attitude was shortly extended to multinationals as a whole. On May 16 1980 it was reported that the Union government would henceforward follow a more 'pragmatic' approach in the implementation of FERA.[10] It was given out further that decisions on foreign equity in the case of Hindustan Lever, Guest Keen Williams and General Electric Company were also "being considered on merit". Indeed, there were indications that the necessary consideration had already taken place, for the same report added:

> Contrary to some earlier reports the case of Hindustan Lever for 51 per cent foreign equity has not been rejected, although the former caretaker Prime Minister, Mr. Charan Singh, had confirmed the direction to the company to reduce foreign equity to 40 per cent. For, this order was based on the "estimated performance of the company in the core sector and exports during 1979.

But it was not disclosed on what basis the reported confirmation by Mr. Charan Singh of the order to reduce foreign equity to 40 per cent fell short of a "rejection" of the company's case to keep foreign equity at 51 per cent. It must be noted here that Hindustan Lever had initially been directed by the Reserve Bank of India to make the necessary dilution.[11] It was also not clear on what basis the decision was revised. A similar concession was also given to Union Carbide. The company which had been directed in 1977 to dilute foreign equity to 40 per cent was allowed by the FERA committee, at its meeting on May 6, to maintain the status quo with foreign equity of 50.9 per cent.[12] This was done even though the last date for dilution specified in the directive issued to the company in 1977 had already expired 15 months earlier.[13] Other companies in whose case the stipulated period for dilution had expired, but whose cases were still pending with the Union Finance Ministry "for a final decision" were Alkali and Chemicals, BASF India, Guest Keen Williams, Hindustan Lever, N.G.E.F. and G.E.C.[14] Similar concessions were offered to Pfizer, Johnson & Johnson, Cynamid and E. Merck which were allowed to retain existing foreign equity even though they had earlier been asked to dilute. The companies argued that the level of equity should be decided on the basis of their character in 1982 and not in 1978. As in the case of Hindustan Lever, cited earlier, these companies were able to pit one state agency against another in order to achieve their purpose. The 'administrative ministry' concerned, namely the department of chemicals and fertilisers, opposed

the view taken by the FERA Committee and took the stand that all existing companies should be exempted from dilution and the FERA provisions should be applied only to units that come up in the future.

All this is reflective of a good deal of ambiguity in administration. Since it was the FERA policy to allow a stipulated period within which the companies concerned would be required to dilute it was not very meaningful to give it out, long after the expiry of this period, that the cases were still pending with the government.

Meanwhile, the Union Government made relaxations even in the policy towards foreign banks. Although a ban had been imposed on the opening of new branches of foreign banks after banks were nationalised in 1969, two foreign banks viz. the European Asian Bank, Hamburg and the Emirates Commercial Bank of Abu Dhabi, were now given licences to open branches in the country.[15]

The pressure for a greater opening up of the Indian economy to foreign capital continues to be applied relentlessly with even Indian semi-official and official agencies throwing their weight in this direction. An ICICI publication entitled "ICICI 1955-1979" was released by the then Union Finance Minister, Mr. R. Venkataraman on April 12, 1980[16] The publication argued that the Indian capital market had "remained insulated from the international capital market." It however, declared:" that phase is over". Another salvo was fired by the release of the report of the "Review Committee on Electronics"[17] The Committee declared that the international trade in high technology was growing every year and that"we should not shut our doors to its import in areas like electronics which calls for a great deal of sophistication". The Committee betrayed an unsatisfactory understanding of the very rationale of the country's industrial regulations by arguing that in order to spur the growth of the electronics industry, the Industrial Policy Resolution of 1956 be amended to permit greater scope for the private sector in the telecommunications industry. It argued:

> Under the Industrial Policy Resolution, 'telephone and telephone cables, telegraph and wireless apparatus (excluding radio receiving sets)' are reserved for the public sector. This terminology has been interpreted hitherto in an all-embracing manner to the total exclusion of the private sector's participation in the growth of production of telecommunication equipment, even where the public sector programmes have been clearly inadequate to meet the fast growing requirements of the country. The Committee is of the view that, in this category, the private sector could supplement and augment production in the public sector substantially. The committee therefore recommends that this restriction be selectively removed so that there is national participation in the challenging task of meeting the overall requirements of telecommunication equipmentinthe country and consequential changesmadeinthe Industrial Policy Resolution[18]

The Committee also recommended the restructuring of the Electronics Commission which had shown a preference for self-reliance in the electronics industry.[19] Moreover, it declared that there was no need for "any canalisation of imports."[20]

At about the same time, strong pressures were operating within the Commerce Ministry to seek a dilution of FERA in respect of companies engaged in exports. It was reported that "if the ministry has its way", Hindustan Lever was likely to be one of the "major beneficiaries."[21] The dilution order/on Hindustan Lever was nevertheless confirmed for time being. But Union Carbide was finally allowed to retain foreign equity at 51 per cent. Even this decision appears to have been cleared at the highest political level.[22] By June 1980, the Union Government signalled a major change in its public stance when the Minister of State for Industry, Mr. Charanjit Chanana, indicated in the Lok Sabha that the proposal for the manufacture of Coca Cola in India will be given consideration in accordance with the policy of the government in this regard." This reply was given in answer to the question whether the minister's "attention had been drawn to the Prime Minister's interview to a foreign journal Nature, expressing her 'no objection' to the returning of Coca Cola to India."[23]

The government's desire to attract foreign capital was expressed uncritically even in respect of areas where technical collaboration might have sufficed. Thus the then Union Energy Minister, Mr. Ghani Khan Chowdhary, announced in July that the government intended to ask "several countries to invest funds here for developing new coking coal mines on a production sharing basis." He gave a general, and to all appearances, an unsolicited assurance that the "foreign investment will

be entirely paid with coal. Furthermore, he made it known that the "question of production sharing will be reviewed after the whole amount is paid back", implying thereby that production could be shared even after the amount had been repaid in terms of coal.

The important question here is whether this reflects an advisable style in which to conduct negotiations even if it is objectively necessary to invite foreign capital to a particular sector.

In July 1980 the Union Government concretised the developing shift in its policies with a new industrial policy statement made by the minister of state for industry, Dr. Charanjit Chanana. This statement, while still formally adhering to the Industrial Policy Resolution of 1956, chose to laud this resolution primarily for having "shown conclusively the merit of constructive flexibility."[24] The new approach involved an across-the-board liberalisation in industrial policy, but special consideration was shown to industries included in Appendix 1 of the 1973 policy. The facility for automatic expansion by 25 per cent in a five year period given to 15 industries in 1975 was now extended to all industries included in Appendix 1.[25] Since under the 1973 policy the large houses and foreign-controlled companies had been asked to concentrate in this area, the July 1980 liberalisation was an obvious and direct gesture towards these interests.

Lobbying for specific contracts in the public sector in the post - 1980 period now began to be conducted to all appearances more intensively and more unabashedly than in the earlier periods. The lobbying for the Thal - Vaishet fertiliser project, the Paradip steel plant and off-shore blocks for oil exploration are cases in point. The lobbying for both projects was conducted at a very high pitch. In the former case, for instance, even the World Bank more or less generally took sides.

In the matter of the Rs.600 crore Thal-Vaishet (Maharashtra) contract the concerned government departments were split vertically on whether C.F. Braun, a well known American firm, was to be given the contract or whether the project was to go to Haldor Topsoe of Denmark. Even the cabinet sub-committee which met to consider this issue was reported in August 1980 to be sharply divided on the question.[26] While

considerable lobbying in respect of this project was on, delaying the project by several months, the cost of the project was estimated to have escalated at the rate of Rs.5 crore a month. Before the installation of the Congress (I) government at the Centre in January 1980, an "expert committee" was known to have recommended C.F. Braun to be the contractors. This was also in accordance with the preference indicated by the World Bank. It is clear, however, that lobbying was intense and that varying considerations were weighing with the authorities. In January the new government decided to review the earlier decision[27] A panel headed by Mr. B.B. Singh, Chairman of the Industrial Finance Corporation was appointed at this time to look into the question. It was on the panel's suggestion that fresh bids were made by C.F. Braun, Pullman Kellog, Toyo Engineering, Humphrey Glasgow and Haldor Topsoe.

The contract was finally awarded to Haldor Topsoe. (This company is an affiliate of the giant Italian multinational, Snam Progetti.) The rejection of C.F. Braun as the prime consultant for the Thal project, however, resulted in the World Bank actually going back on the aid commitments that it had made for the project. But the World Bank's commitments to the Hazira project remained unaffected. Significantly, Pullman Kellog of the United States had been taken on as the prime contractor for this project.

All this frantic activity on behalf of multinationals has not been without adverse consequences for the Indian public sector. In the case of fertilisers the status and role of the Projects and Development India Ltd (PDIL) has been reduced directly as a result of the intrusions of foreign capital. Its accumulated expertise was bypassed in the choice of prime consultants for the Thal and Hazira projects. Balraj Mehta has meticulously documented the manner in which this organisation, which was born as the Planning and Development Division of the Fertiliser Corporation of India was gradually and systematically sabotaged and the initiative in the development of the Indian fertiliser industry passed to transnational companies.[28] In as crucial a sector as power, there have been fairly successful attempts by Brown Boveri and Deutsch Babcock to supplant BHEL as a supplier of equipment to the Chandrapura project. Such attempts had the explicit support of the Maharashtra government.[29] The state government remained insistent on the import of the 500 MW sets

that BHEL had offered to supply and overlooked the latter's claim even though it had submitted the lowest bid. Prior to this, Siemens India made serious efforts to invoke its agreement with BHEL, which has been referred to in Chapter V, to obtain the contract for supplying the instrumentation equipment for the power project in Muzaffarpur, Bihar. In fact, the managing director of Siemens India, Mr Langer specifically told BHEL that "unless his firm was considered for the instrumentation contract, the other collaboration agreements between Siemens and BHEL may be jeopardised."[30] This was thus a deferred price that the country was called upon to pay for the BHEL-Siemens deal entered into earlier.

The new phase involved a thoroughgoing review of a wide spectrum of economic policies. Exports moved to the centre of the economic stage.

The Committee on Export Strategy for the eighties, headed by Mr. P.L. Tandon which had been constituted in June 1979 submitted an interim report in May 1980 and its final report in December that year.[31] The members of the committee who completed their tenure were: (1) Mr. G.V.K. Rao, Member, Planning Commission (2) Mr. K.S. Krishnaswamy, Deputy Governor, Reserve Bank of India, (3) Mr. Mantosh Sondhi, Secretary, Department of Steel, Government of India (4) Mr. Romesh Bhandari, Additional Secretary, Ministry of External Affairs, (5) Mr. Rahul Bajaj, President, Association of Indian Engineering Industry, (6) Dr. D.K. Rangnekar, Editor, Business Standard, Calcutta,(7) Prof. Amit Bhaduri, Jawaharlal Nehru University (8) Mr. Mahendra G. Mehta, Chairman, Gem & Jewellery Export Promotion Council. (9) Mr. NCB Nath, Chairman, Ganesh Flour Mills Co. Ltd. (10) Mr. Brij Nath, Managing Director, Tata Exports (11) Mr. V.P. Punj, Chairman, Engineering Export Promotion Council (12) Mr. R.K. Singh, Executive Director, Engineering Export Promotion Council, (13) Mr. Montek Singh Ahluwalia, Economic Adviser, Department of Economic Affairs, (14) Rear Admiral Krishna Dev, Managing Director, Shipping Corporation of India and (15) and Mr. Vijay L. Kelkar, Economic Adviser, Department of Commerce who was Member-Secretary.

It will be seen that there was a very significant representation of private industry in the Committee, apart from certain bureaucrats having past associations with economic policies preferred by international

financial institutions like the World Bank. For this reason, and also because the Committee's recommendations epitomised in many ways the reigning economic wisdom, these will be considered by us at some length. The Committee's recommendations were also based on the assumption that India "has enough experience with multinational investment by foreign firms, and now with its own multinationals abroad, to enter the transnational relationships with confidence..."[32] Moreover, it added that this would "need some active support from government because in the changing international scene decision-making has to display broad vision and speed; and in a planned and controlled economy like ours it has to receive that support at virtually every turn. Our risks are small and benefits substantial."[33]

The Committee asserted:

> We (i.e. Indian authorities) are neither seemingly willing to open our markets nor to collaborate freely. As someone in ECM put it, 'the ball is in India's court. One of our major industry associations has a man currently out in India prospecting for just this. The advantage to us lies in importing lower costs from India and improving our competitiveness abroad; to you, jobs, exports, spread of higher technology.'[34]

In addition, the committee came out strongly for a greater Indian involvement in transnational banking and for "building up working connections with the larger multinational banks and participating in international syndications."[35]

The two dissenting members, Dr. D.K. Rangnekar and Prof. Amit Bhaduri, scoffed at the Committee's suggestion for concessions to companies covered by the MRTP Act and FERA in the name of fostering growth of exports.

As the dissenting members pointed out, the Committee's recommendations were liable to have "the effect of defeating the purpose of protecting society from being subject to monopolies and multinationals and prevent the country from reaching the goal of technological and economic self-reliance."[36] They asked some pointed questions about the role that multinational companies were expected to play in the newly evolving framework:

> While exports are the excuse made by the committee for domestic policy changes, no explanation has been offered about the range of products which the multinationals will produce and export, how much domestic investment by them will be allowed, on what terms etc. We are familiar with the frequent complaints from organisations like Business International Corporation (representing US Big business) and others about the poor investment climate in India -- despite the well known fact that multinational corporations branches and their subsidiaries have been earning mostly fatter margins in India than in their home markets. Throwing the economy open to the multinational corporations at this stage will, in our view, only increase the country's vulnerability to them through greater dependence on their services. This vulnerability will be still more acute when technological dependence is perpetuated in the name of a liberalised access to foreign technology.[37]

The strength of this view is obvious from the fact that foreign technological collaboration often carries with it restrictive conditions on exports.[38]

The dissenting members also observed that multinationals, which have been in operation in India for as many as 50 years or more had not developed any basic technology worth the name, and it was only FERA which pushed them into a search for 'sophistication' of technology to minimise dilution of equity capital, and, at the other hand, pressurise the government for the dilution of the FERA..."[39]

The Report of the Committee on the Export Strategy and an approach paper prepared by the Commerce Ministry at the time[40] together provide an indication of the kinds of export promotion policies that now began to be seen as necessary and the scale on which it was hoped to increase sales abroad. The Committee had expressed the view that it would be necessary to have a compound annual growth rate in exports of around 10 per cent. The Commerce Ministry's approach paper presented a more or less similar perspective with the average annual growth rate in exports placed at 10 per cent in the Sixth Plan period and at 15 per cent in the subsequent five years. Such projections implied the projected pushing up of exports to more than Rs. 20,000 crores by 1989-90, a figure that would roughly be 20 per cent of the projected gross national product in that year. The extent to which such a perspective would increase India's external reliance should be obvious from the fact that even in the case of Brazil, which is often cited as pursuing a policy of export-led growth, exports account for at best only one-tenth of the national income.

That there was a qualitative shift in the attitude toward foreign capital in the post-1980 period is suggested also by the statistics on foreign collaborations approvals. The number of foreign collaborations approved in the years since 1970 were as follows

FOREIGN COLLABORATION APPROVALS (1970 - 1980)

Year	Total foreign collaborations approved
1970	183
1971	245
1972	257
1973	265
1974	359
1975	271
1976	277
1977	267
1978	307
1979	267
1980	526

*Source : For the years 1970-79 the figures have been obtained from the Ministry of Industry (Secretariat of Industrial Approvals), Statement Showing Country-wise Break-up of the Foreign Collaboration Approvals Received during the period 1970 and 1979. The figure for 1980 has been obtained from India Investment Centre, Monthly Newsletter, 25 March 1981 which contains the following comment: "The number of foreign collaborations approved during the year 1980 is 526, the largest number so far. The number of collaborations has almost doubled from last year's level of 267." This suggests that the figures from the two source are clearly comparable.

IMF Loan:

The loan of over Rs. 5000 crores negotiated by India from the International Monetary Fund in 1981 - 82 has its own implications for the economy and politics of the country. In the discussion on the proposed loan in the Rajya Sabha on September 8, 1981, the Union Finance Minister explained that the loan was being sought in order to cover the "foreign exchange requirements for the rapid economic development of the country in the Sixth Plan".[41] Significantly however, the minister expressed his "inability to disclose the terms and conditions of the proposed loan."[42] All the members who took part in the debate in the Rajya Sabha "warned the government of the hazards involved in seeking a massive IMF loan, both in regard to the conditions that might be imposed by the Fund and the heavy repayment obligations which would amount to mortgaging posterity."[43] The Union Finance Minister extended the assurance to allay fears about the conditions imposed: "Devaluation is

not necessary. It won't be done"[44] P Ramamurthy (CPM), who participated in the debate, however, maintained that the Minister's assurances did not amount to much, "UK borrowed (from IMF) and look at its economy. Italy borrowed and look at its economy."[45] It is, however, clear that the Government of India sought to accommodate the IMF's proclivities to a considerable extent. Devaluation of the currency for example, was resorted to in a slow long-drawn process. Within a couple of days of the Union Finance Minister's statement in the Rajya Sabha, the West Bengal Government drew attention to the fact that the process of devaluing the rupee had already begun.[46] As the state's finance minister pointed out: "during the past five months the value of the rupee had been depreciated by 14.04 per cent in relation to the value of the dollar which was 10.968 against Rs. 100 on September 8, 1981. The value of dollar during the corresponding date in April this year was 12.980."[47] The International Monetary Fund's Annual Report for 1981 which became available within a few days of these events provided a further indication of the pressures the Fund could have been expected to bring to bear upon the Government of India in relation to the loan. It was argued in the Report that lower exchange rates would help attract foreign investment to the country concerned and that countries that had overvalued exchange rates "have been less successful in attracting foreign investment."[48] According to the Report, devaluation may be the "only feasible solution" if investment was to be forthcoming in the 'export sector'.

Several Members of Parliament saw the promulgation of the Essential Services Maintenance Ordinance, which gave the government power to ban strikes in essential services as part of an effort to "appease the International Monetary Fund and monopolist."[49] The World Bank's Annual Report, which became available later the same month, referred in an appreciative context to the fact that "significant changes in economic policies are taking place in India in reponse to the changing resource position and in preparation for another period of balance of payments difficulties."[50] Meanwhile, the United States stepped up its pressure for imposition of even more stringent conditions in respect of the loan. On September 21, the U.S. treasury secretary, Dr. Donald T. Reagan, made

it known that his country intended to "raise a lot of questions" about the proposed 5 - 7 billion dollar loan to India at the meeting of the Governors of the World Bank and the Fund that was to be held later in the month.[51]

The Wall Street Journal, an influential American newspaper, gave an indication of the possible motives for this. Opposing the loan, the paper argued that the proposed arrangement between India and the fund had become the focus of public attention not only because it was the largest loan ever made by the IMF but also because "Mrs Gandhi has taken so much pleasure lately in thumbing her nose at the U.S."[52]

Following the annual meeting of the IMF and the World Bank there were reports in Washington that the loan, to be considered on November 9, would be "scaled down."[53] On October 19, it was reported that India had accepted the conditions sought to be imposed by the IMF in relation to the loan.[54]

On the same day, the Union Finance Minister's letter to the IMF (see Annexure 'L') requesting "an extended arrangement" for a period of three years for an amount equivalent to SDR 5 million was published by The Hindu. The paper also published a summarised version of a memorandum attached to this letter setting out the "details of the adjustment programme adopted by the Government of India."[55] The memorandum committed the Government to achieving balance of payments adjustments through "a range of measures which are being implemented and will be continued through the programme period", and to accord "high priority to the objective of achieving a dynamic export performance". It undertook that during the Sixth Plan (1980-81 - 1984-85) the "main emphasis of public sector resources mobilisation policies will be on raising the contribution of the large public enterprise sector by improving efficiency and pricing policies and on containing the burden of subsidies". On agricultural development the government made the commitment that the "agricultural development strategy followed in the late 1960s will be maintained and strengthened." It reassured the Fund that its policies towards the private sector would be liberal : "The new industrial policies are being implemented through a flexible administration of existing regulations. Further adaptation of policies

to achieve the objectives stated earlier will continue to be kept under review". Specific monetary restrictions were also agreed to, including limitations on bank credit to government, containment of liquidity with commercial banks by "phased increases in the cash reserve ratio and the statutory liquidity ratio", limitations on total liquidity and domestic credit expansion. Moreover, the government committed itself "to carry forward the progress achieved over recent years towards liberalisation of imports of raw materials, intermediate and capital goods needed by the economy". It specifically stated: "It is our intention that the import policies for 1982-83 and 1983-84 will contain significant steps aimed at liberalising imports... Where appropriate, in the interest of economic efficiency, consideration will be given to further imports of selected categories being produced at present. Measures introduced will be greater in impact than any adjustments to tighten restrictions". Finally, it agreed that "the government also recognises that exchange rate policy has an important bearing on export growth. During the programme period the government intends to pursue a realistic policy in regard to exchange rates, keeping in mind, inter alia, their objectives with regard to the overall balance of payments and export promotion". Apart from all this, the government committed itself to a limit to borrowing on international money markets.

US Government and Business:

The United States government and business circles came to adopt in the post-1980 period a policy in which both the 'carrot' and 'stick' components came to be more sharply defined than before. On the one hand, there were pressures from U.S. business upon its own government to enter into a collaborative relationship with India. American business saw quite clearly the new opportunities that had opened up. The chairman of the Business International, Mr. Orville Freeman, made what was obviously a carefully timed statement at New Delhi "questioning the wisdom of the US administration in supplying technologically advanced arms to 'fragile regimes' that are unpopular with their people..." (hinting at the proposed US-Pakistan arms deals).[56] He pointed out that:

"India had the largest number of multinational corporations. The number of MNCs from India that had joined the MNC club surpassed those from any other developing country".

Clearly, US business saw opportunity for economic collaboration as the objective basis for geo-political strategy. Leaving little doubt in respect of the collaboration envisaged, Mr. Freeman was reported to have "called for the creation of a bilateral Indo-U.S. Commission in the nature of an informal group which could rescue the North-South dialogue from its present negativism and acrimony and move forward to productive action. India and the U.S. could undertake this task since they are wedded to democracy, the most effective engine for creativity extant".

On the other hand, the United States government sought to pressurise the government of India through the medium of the World Bank to "hand over the Godavari Offshore oil field to foreign oil companies".[57] In a document entitled "An Examination of the World Bank's Energy Lending Programme" the United States government was critical of loans that had earlier been extended by the World Bank for the development of Bombay High. The basis for the U.S. government's criticism was that this would have "displaced private foreign investment". The report listed India as among the ten countries with the greatest oil potential as also among five countries which had been cool toward foreign companies in the oil industry but were now willing to allow these in. The report was quoted as saying "... there is a tendency for some countries, particularly Brazil and India, to retain the best acreage for their state-owned oil companies and limit foreign investors to less promising areas -- the Bank's leverage could possibly be used to obtain access to reserve and prospective acreage, such as India's Godavari basin". According to the document, this could be achieved "by conditioning Bank financing on the host country's agreement to allow private companies to share in such exploration and subsequent development". Similarly, the dogged US resistance to India's request for a loan from the Asian Development Bank has been widely documented.[58]

That a major shift had taken place in the policy towards foreign capital was signified by the participation of an official delegation at the Davos (Switzerland) business symposium in early 1982. Official

participation at this seminar -- the government delegation was headed by Mr. Narain Dutt Tiwari, Minister for Industry, Steel and Mines -- organised by the European Management Forum naturally "raised expectations of a high order".[59] Mr. Tiwari was quoted as having said: "The extent of opportunities available to a foreign investor in India has unfortunately not been well publicized enough and there is therefore a lot of scope for improvement in this field".[60] He went on:

> I think there is no need to be obsessed with the term 'multinationals'. Besides, many industrial undertakings in the West and in Europe in particular, are not multinationals but are extremely specialised in high technology. My function here is that of a policy catalyst and it is left to the industrialists here to make the face-to-face contact and create new opportunities. As you are aware, our public sector also has collaborations with the private sector in the West and so we also have in Davos some public sector executives talking to prospective investors.

In the following month, the Prime Minister herself, speaking in London expressed India's "keen desire to attract more foreign investment in the country".[61] She drew pointed attention to the liberalizations that had been made.

In April 1982 a study on FERA guidelines conducted in the Economic Administration Reforms Commission headed by Mr. L.K. Jha, became public.[62] The study which has been variously described as a report by the panel and as a personal note by Mr. Jha contained a critique of the FERA guidelines, suggesting broadly that it was perhaps better that FERA companies be allowed to retain 51 per cent foreign equity rather than made to dilute to 40 per cent. The argument which was sought to be built up by the Commission, and which was publicised again in the financial press on June 26, 1982,[63] was based mainly on four grounds. These were, firstly, that dilution of equity by FERA companies to 40 per cent had not weakened their control on management. Secondly, that the companies tended to repatriate more foreign exchange "in the absence of an export obligation and being free to trade and expand horizontally". Thirdly, there it had "become difficult for smaller entrepreneurs to compete with FERA companies for equity investment from the public". Finally, it was observed that "most FERA companies having 51 per cent foreign shareholding have fulfilled their obligations on both export and investment fronts". While this was undoubtedly a significant critique

of the FERA guidelines, it is significant that on the same day (June 26) it was reported that "the Centre has allowed Hindustan Lever to retain 51 per cent non-resident shareholding".[64]

Besides, certain other aspects of the Commission's study did not receive adequate attention. The Commission had also pointed out, for example, that the "industry-wise break-down of investment made by foreign and large houses did not appear to conform to accepted national priorities".[65]

That the permissive aspects of the Jha Commission's "report" inspired a series of concessions is indicated further by the fact that in May 1982, after the "report" had been submitted, the Union Finance Ministry "formulated proposals to modify the Foreign Exchange Regulations Act...".[66] Significantly, these modifications pertained precisely to the aspect of FERA guidelines to which the Jha Commission had addressed itself. Under these proposed modifications so long as "the flow of sophisticated technology and accelerated core sector investment are ensured, the condition of equity dilution to 40 per cent over a period of time will not be insisted upon".[67] That is to say, instead of the obligation to dilute being related to current activities, this could perhaps be related to future plans!

The influence wielded in Indian governmental circles by international finance is best summed up in the words of the Overseas Development Council based in Washington. According to this organisation the World Bank's influence on Indian policies is "more than either Indian officials or staff within the Bank itself are prepared to admit".[68] The Council's view was based on "extensive interviews with Bank officials who made available Bank material not released to the press". It concluded that the Bank influenced export promotion, trade liberalisation, petroleum development and fertilizer production, and that even the Left Front government in West Bengal "redefined" its urban development project "in a direction the Bank wanted to move any way".

The import policy of 1983 was somewhat restrictive as compared with the position that the government had taken in the immediate aftermath of the negotiations for the IMF loan. This raised questions about whether the government was moving away from the liberal approach adopted

earlier. But such an interpretation is not warranted by anything the government may have done since then. Instead, the shift towards a more 'open' economy has continued.

Symptomatic of this were reports that the government has been actively considering a proposal "to rope in large industrial houses in the country for investing in offshore oil exploration".[69] It was stated further that the "government is convinced that the indigenisation of oil exploration industry will not be possible without the help of the private sector". It is obvious that if such a decision were taken it would, to a large extent, be in fulfilment of the demand made by supra-national funding bodies in the late fifties and early sixties that the oil industry in India be thrown open to the private foreign sector.[70]

Serving once again to belie the myth that foreign private capital was itself not keen to come to India, foreign companies not only continued to exhibit but also increased their interest in penetrating the Indian economy in 1983. Soon after the visit to India of a U.S. Overseas Private Investment Corporation delegation in early 1983, it was announced in Washington that 26 of the 28 companies that participated in the delegation were "anticipating investing some $ 45 million in 45 projects" in the country.[71] These companies included Telos Computing Company of Santa Monica, California (Computer software and electronic switching equipment); Mid-American International Trading Corporation, (technology-trading group, involved mainly in food-processing); Lazare Kaplan International, (New-York based company with diamond interests and wishing to enter the Indian economy in view of the recent expansion of the diamond processing industry in the country); a number of US oil companies which though small have linked up to form a consortium and hope to enter the Indian economy for on-shore oil drilling; McDermott International, an oil company hoping for a "long-term involvement" with the Indian offshore oil drilling industry; Dresser Industries (chemical inputs for oil drilling); Cargill Corporation which has been involved in Indian purchases of US wheat, prospecting for joint ventures in the manufacture of high-fructose syrup; David Hirsch and Associates, Colorado, (macademia nut plantations in collaboration with Kothari

(Madras) Ltd.); Rockwell International (exploring production possibilities in the field of telecommunications); and Pro-Tire Inc. of Alabama (exploring collaboration possibilities for making "high-performance bullock-carts which will make use of a new axle technology") [72] This illustrative list is indicative of the impression that multinational companies have about the direction of the Government's policies on foreign capital.

FOOTNOTES

1. Business Standard, Calcutta, February 11, 1980.

2. Financial Express, New Delhi, February 17, 1980.

3. Financial Express, New Delhi, February 16, 1980.

4. The Economic Times, Bombay, February 18, 1980.

5. The speech of the Chairman, Brooke Bond India Limited at the annual general meeting held on December 11, 1972 (reprinted in Economic and Political Weekly, January 6, 1973) reveals that the company had been selling Nirodh contraceptives on behalf of the government.

6. Economic Times, Bombay, March 8, 1980.

7. Financial Express, New Delhi, March 8, 1980.

8. Economic Times, New Delhi, March 12, 1980.

9. This decision had been taken in the Siemens case largely because trading activities accounted for a high proportion of the company's turnover.

10. Financial Express, May 16 1980.

11. Economic Times, March 22, 1980.

12. Financial Express, May 16 1980.

13. Economic Times, March 27 1980.

14. Idem.

15. Economic Times, New Delhi, April 6, 1980.

16. Economic Times, New Delhi, April 13, 1980.

17. India, Report of the Review Committee on Electronics, New Delhi, September 30, 1979. Although this report had been submitted to the government in September 1979, it was publicly released only in April 1980. See Economic Times, April 18, 1980.

18. See Report of the Review Committee on Electronics p.16.

19. Ibid., p. 101

20. Ibid., p.90.

21. Business Standard, Calcutta, April 28, 1980.

22. See Business Standard, Calcutta, May 13, 1980 which reported that the decision in the Union Carbide case would become formal only after the finance minister signed the minutes of the FERA committee's meeting on May 6, 1980.

23. Business Standard, Calcutta, June 12, 1980.

24. India, Ministry of Industry, Department of Industrial Development, Statement on Industrial Policy by Dr. Charanjit Chanana, minister of state for industry, July 1980, p.1, hereinafter referred to as Statement (1980).

25. Statement,1980 p. 6.

26. See Economic Times, Bombay, August 18 1980.

27. Idem.

28. See Balraj Mehta Fertilisers: End of Self-Reliance, Business India, March 28 to April 10, 1983.

29. For an account of BHEL's efforts to obtain the contract and its willingness to match the credit terms offered by the foreign suppliers see The Economic Times, March 5 1983.

30. Sunday, Calcutta, 12 July 1981.

31. See India, Ministry of Commerce, Committee on Export Strategy (1980), Final Report, New Delhi, December 1980.

32. Committee on Export Strategy (1980) Final Report, op cit., p. 126.

33. Idem.

34. Idem.

35. Committee on Export Strategy (1980), Final Report op. cit, p. 131.

36. Ibid. pp. 194 - 195.

37. Ibid., p. 195.

38. Ibid., p. 195. (The point is also made in K.K. Subramanian and P. Mohanan Pillai, Multinationals and Indian Export, 1979 and IIFT, Role of Transnationals in Indias Exports. See also our discussion in Chapter II.

39. Committee on Export Strategy, Final Report p. 197.

40. Business Standard, Calcutta, January, 20 1981.

41. Indian Express, New Delhi, September 9 1981.

42. Idem.

43. Business Standard, Calcutta, September, 9 1981.

44. Idem.

45. Idem.

46. Business Standard, Calcutta, September 11 1982.

47. Idem.

48. Business Standard, Calcutta, September 16 1981.

49. Business Standard, Calcutta, September 15 1981.

50. Business Standard, Calcutta, September 21 1981.

51. Economic Times, New Delhi September, 23 1981.

52. Indian Express, New Delhi, September, 26 1981.

53. Indian Express, New Delhi, October, 6 1981.

54. Financial Express, New Delhi, October, 19 1981.

55. The Hindu, Madras, October 19, 1981. The letter and memorandum are reproduced as an annexure to this report.

56. Times of India, New Delhi, October 13, 1981.

57. Business Standard, Calcutta, October 30, 1981.

58. See, for instance, The Statesman, New Delhi, April 22, 1983.

59. The Economic Times, February 3 1982.

60. Idem.

61. Business Standard, March, 24 1982.

62. Businesss Standard, April, 18 1982.

63. Financial Express, June, 26 1982.

64. The Economic Times, June, 26 1982.

65. Business Standard, April 18 1982.

66. Business Standard, May 7 1982.

67. Idem.

68. Business Standard, January 23 1983.

69. The Economic Times, New Delhi, July 13, 1983.

70. See, for instance, Michael Kidron, Foreign Investments in India, Oxford University Press, London, 1965, p. 172, who records the World Bank's efforts in this regard.

71. The Statesman, Delhi, April 22, 1983.

72. Ibid.

CHAPTER VII

MNCS IN INDIA: EFFICACY OF REGULATORY MECHANISMS

The pattern of economic development adopted by India, presupposed the existence of a broad framework of regulatory policies to direct economic activity in accordance with plan priorities. The regulation of economic activity, particularly of the corporate sector, evolved over time. The first major, legisation enacted for the regulation of the corporate sector was the Industries (Development and Regulation) Act, 1951, popularly referred to as the Industries Act.[1] The Industries Act introduced the system of mandatory licensing, with all firms intending to set up an industrial unit, or to substantially expand the existing one, or to manufacture a new article, in any of the schedule industries involving investment exceeding a prescribed limit, required to obtain prior approval in the form of an industrial license. The objective of industrial licensing is to allocate scarce, or at any rate limited, investible resources according to plan priorities.

The industrial licensing system (ILS) as it has evolved however, is riddled with loopholes and is not rigorously enforced. A recent Corporate Studies Group has provided detailed evidence of the extent of non-compliance with ILS, by the private corporate sector, including the MNC affiliates.[2] For instance, the study found for the 1979 financial year, no less than 124 cases of production substantially in excess of licensed capacity, in the case of former foreign branches and subsidaries and FERA companies (according to the 1974 listing).[3] Some 18 companies which came under the purview of FERA in 1974, had both excess and under-utilised production capacities in 1979.[4] Evidently therefore, the Industries Act, the lynchpin of the ILS, has had little effect in regulating MNCs.

Another regulatory mechanism is the Capital Issues Control Act 1956 which regulates the issue of securities (shares, debentures) by corporate bodies. Though companies are obliged to obtain the consent of the Controller of Capital Issues prior to the issue of any security, this does not apply for the issue of fresh equity of a value less than Rs.25 lakhs, and in the case of an equity issue less than Rs.50 lakhs, only a formal acknowledgement is necessary. Under the Act, the

controller of Capital Issues has no discretionery powers and in view of the rather general provisions, about 99 per cent of the applications have been approved without any objection.[5]

It was on the basis of the experience with the managing agency system, that the earlier Indian Companies Act of 1913, was replaced by the Companies Act 1956, which laid restrictions on the management of companies, including limitations on the amount of managerial remuneration, the number of directorships that can be held by one person, and the number of companies that can be managed by a managing agent. In December 1967, in the Report of the Managing Agency Enquiry Committee, the abolition of managing agencies was recommended in four industries.[6] Later, in 1970 the Government, in order to reduce the extent of managerial control abolished the managing agency system as a whole. A detail analysis of the inter-locking of directorships undertaken in Section II of this Chapter, reveals that this regulatory mechanism has not been effective.

The Monopolies and Restrictive Trade Practices Act was enacted in 1969 in response to the recommendations of the Monopolies Inquiry Commission. In accordance with Article 39(c) of the Indian Constitution, the MRTP Act has a specific objective, to ensure that the operation of the economic system does not result in the concentration of economic power "to the common detriment." The Act is therefore the Indian counterpart of the Monopolies Act and the Fair Trade Practices Act in Britain, and the Anti-Trust Laws in the U.S.A. The MRTP Act enjoins upon all undertakings which either alone or together with Inter-connected Undertakings (referred to as the Groups of Inter-conected Undertakings or GICU) control assets valued at not less than Rs.20 crores, to register themselves with government. Similarly, independent undertakings or GICUs with assets not less than Rs. 1 crore controlling at least one-third of total goods and services sold in the country, have to register under the Act as Dominant Undertakings (DUs). All MRTP Act registered undertakings which include a large number of foreign controlled companies, are subject to special procedures in the area of industrial licensing, and require a special clearance from the Government.

The Foreign Exchange Regulation Act, 1973 (FERA) is often taken to be the only regulatory mechanism specific to foreign capital. But the preamble to FERA does not, at any point, explicitly specify that the intention under the Act is to regulate foreign capital. It is in fact only intended to conserve and best utilise foreign exchange resources in the interests of India's economic development.[7]

In Section I below, an analysis of the efficacy of the last two important regulations; the MRTP Act and FERA, is undertaken. The analysis demonstrates the limited applicability of these regulatory mechanisms to the MNC affiliates.

Section I: **MNC in the Indian Economy: Identification**

In India three sets of definitions of foreign enterprises are used for different purposes. Under the Companies Act, 1956, 'foreign companies' are defined as companies which are incorporated outside the country but have a place of business in India (which are often referred as foreign branches). A subsidiary of a foreign company is defined as a company in which more than 50 per cent of the equity capital is held by a single foreign company. The second set of definitions is the one used by the Reserve Bank of India for its studies on finances of joint stock companies. According to this definition an Indian company becomes a 'Foreign Controlled Rupee Company' (FCRC) if 25 per cent or more of its equity is held abroad by a <u>single</u> company and its nominees or 40 per cent is held in <u>one</u> country. <u>Finally,</u> for regulatory purposes all Indian companies with more than 40 per cent <u>direct</u> foreign equity have to register themselves under the Foreign Exchange Regulation Act 1973 and are called FERA companies. A foreign company for the purposes of the Industries (Development and Regulation) Act, 1951, was defined as a company which had more than 40 per cent equity held abroad <u>directly</u> or <u>indirectly</u>. In 1973 after the promulgation of FERA, the FERA definition prevaled. The multiplicity of the definitions has made it difficult to have a precise estimate of the magnitude of foreign controlled enterprise in India. For example in 1972-73 when FERA was enacted, leaving aside banking, financial, transport companies and non-profit organisations, the RBI identified 537 companies as FCRCs and another 197

as Foreign Branches.[8] In the next year the number of companies registered under FERA, including branches was 877, while according to the Department of Comany Affairs, which follows the Companies Act definition, there were about 500 Foreign Companies (branches) and 183 foreign subsidiaries working in the country.[9]

None of the above definitions takes into account the fact that a widely held joint stock company can be controlled with as low as 5-10 per cent equity holding. Indeed, in Canada, a company is considered as foreign controlled if 5 per cent or more shar capital is held abroad. The definition in USA is 10 per cent or more. A large part of the FCE in India, therefore, remains outside the official lists of foreign companies. For the purposes of regulation, only companies with more than 40 per cent direct foreign equity (and hence to be registered under the FERA) are treated as Foreign and the rest are treated at par with the fully owned Indian companies. A large number of companies which have even majority foreign ownership (through indirect foreign equity) are also treated as Indian companies. The criterion of FERA is not only an arbitrary one because control can be exercised with a much lesser equity, but it also helps disguise the degree of foreign control.

Under the Act, all companies with more than 40 per cent foreign equity are being asked to dilute it to 40 per cent and thereby qualify as Indian companies. Higher foreign equity upto 74 per cent is being allowed only to tea companies, or companies in core sectors or using sophisticated technology or pre-dominantly export-oriented companies. Dilution can be performed, and is indeed being pursued in most of the cases, through issue of fresh equity to the resident shareholders and leaving the absolute foreign equity unaffected (even multiplied by way of bonus shares). This enables the company to augment its resources and get itself identified as an 'Indian' company. But the actual control can still remain with the foreign shareholder in view of his being the single largest shareholder.

In addition, the foreign shareholders very often protect their rights by suitable clauses in the 'Articles of Association'. With the dilution proposals the government also provides them with liberal licences to expand and or diversify their activities.[10] Thus for most

foreign companies, FERA provided an opportunity to become apparently 'Indian' and expand. They therefore readily agreed to dilute their foreign equity to 40 per cent. It is evident that 72 companies diluted their foreign equity even before specific FERA directives were issued to them.[11] Similarly of companies which were permitted to retain foreign equity above 40 per cent, preferred to dilute it to upto 40 per cent or below and hence to get out of FERA. As a result of the enforcement of FERA, the number of companies identified as foreign has come down to 186 in 1981.[12] This will be reduced further and only a few plantation companies and others in the core sector will remainn under the ambit of FERA.

Thus the scope of regulation of MNCs is being curtailed by the Indian regulatory legislation itself. But at least one positive aspect of the FERA is that under it, most foreign branches will have to convert themselves into Indian companies and it will become possible to arrest the alleged tax free outflow of profits in the form of 'head office expenses' etc.

The MRTPA and Multinational Monopolies:

The specific objective of the MRTPA is to curb that concentration of economic power in private hands which is considered to be to "the common detriment", and to check monopolistic and restrictive trade practices by the dominant undertaings. By economic power it meant the power exercisable by the business concerns because of their control over productive assets in a wide variety of goods and services. The monopolistic trade practices were defined as those which tend to unreasonably reduce competition and thus maintain prices at unreasonable levels or limit technical development or capital investment. The restrictive trade practices are practices which affect competition and may thus tend to affect prices or flow of supplies. MNCs have a number of monopolistic advantages as mentioned above. They enjoy tremendous monopoly power because of their control over technology and capital and their global network.[13] Therefore any legislation intending to control monopolistic tendencies has also to be aimed at regulating the activities of multinational monopolies. Indeed a number of multinational companies are registered under the MRTP Act.[14] The exact

number of foreign controlled companies which have registered themselves under the MRTPA is not known, again due to definitional controversy. Even if we treat as foreign only those companies that come under the FERA when it was enforced in 1975, 183 of them were registered under the MRTP as on 31.12.1979. Some of these concerns, however, have since diluted their foreign equity upto 40 per cent and hence are no longer FERA now (ex-FERA). Three types of FERA (or ex-FERA) companies come under the MRTPA:

a) Foreign Subsidiaries or other companies with more than 40 per cent foreign equity which either independently or along with ther subsidiaries or associate companies control assets of the value of Rs.20 crores. These companies are registered either as Large Independent Undertakings (LIU) or GICU, e.g., Hindustan Lever, Dunlop, Ashok Leyland, General Electric, and so on. The subsdiaries or associates of these companies however, need not be registered under the FERA if these do not have foreign <u>direct</u> equity to the extent of above 40 per cent.

Some of the above companies have diluted their foreign equity as per the FERA directives, retaining the character of their management intact. For instance, I.T.C. Ltd., WIMCO, Philips, Metal Box, Madura Coats, and so on.

b) There are companies which have been promoted by MNCs in collaboration with one of the Indian houses or vice-versa and hence are registered under the MRTPA as companies interconnected with these Indian business houses e.g. Hoechst Pharmaceuticals (Unitd Brew.); Associated Bearings (Tata); Kirloskar Cummins (Kirloskar) and so on.

c) There are companies which are foreign controlled and on account of their controlling more than a third of any product line, have registered as Dominant Undertakings e.g. Otis-Elevators, Motor Industries Corporation etc.

Many of these companies are registered under two or more of the sub-sections of this Act simultaneously e.g. Dunlop, WIMCO, each as both GICU and Dominant Undertaking. Table-1 shows distribution of FERA (and ex-FERA) companies which are registered under different sub-section or combinations thereof. This table shows that the biggest concentration

of FERA companies is in the Dominant Sub-groups as out of 110 companies registered as DUs (in various Combinations of sub-sections) 36 companies were identified under FERA also, that is, 32.73 per cent representation while their representation in total MRTP companies is 15.26 per cent only. These percentages, however, are just indicative, due to their not taking into account the size of companies.

It has been pointed out that the impact of the MRTPA on concentration of economic power has been negligible.[15] This has been ascribed to the lacunae from which the MRTPA suffers.[16] For instance, the Act does not provide for an instrument which could examine the issue of interconnection. The Act expects that the individual companies themselves would register o their own. It is natural that larger business houses will try to minimise the registration of companies controlled by them. It has been shown that the top twenty houses alone have managed to keep 512 companies outside the scope of MRTPA which were identified as controlled by them by the Dutt Committee (ILPIC).[17] Among these are companies with foreign connections also. For instance, Goodlass Nerolac Paints which was shown as a forign subsidiary related to Tata House in a Department of Company Affairs study,[18] has not yet registered itself under the MRTPA. The administration of the Act in this respect was so weak that some of the companies which had registered under the MRTPA is connected to GICUs "applied for deregistration later when they realize that proving 'interconnection' was not going to be easy."[19] Secondly, the product classification of the government for determining whether a company is dominant, is highly aggregative. For instance, it has about 350 items only while the classification used by the Monopolies Inquiry Commission (MIC) Report had around 1300 items.[20] Thus many companies (particularly foreign) which registered as DU on the basis of the MIC information applied for deregistration after the issue of this product classification.[21] Notable beneficiaries of this product classification have been foreign companies like Colgate Palmolive (which controls roughly half of the total toothpaste market), Cadbury India (controlling 75-80 per cent of the chocolate market),[22] HMM Ltd. (a market leader in malted food, white beverege etc.). Hindustan Lever

Ltd. which, according to an ORG Survey, controls 42.5 per cent of Detergent Cakes and 79.7 per cent of popular soaps market, has also not been registered as DU.[23]

Apart from the aggregative product classification, the criterion of dominance viz. one third of the total market seems quite liberal. Even in Western countries where the markets for products are more competitive than in India, a less than one-third market share is the criterion for determining dominance. For instance, under the Fair Trading Act of 1973 (UK) it is 25 per cent and only 15 per cent under the Anti-trust Laws of USA.[24]

The above limitations of the MRTPA are, however, general limitations. One particular limitation of the Act regarding regulation of multinational monopolies is that it fails to take into account the interconnections of companies operating in India, through non-resident undertakings. The idea behind registering all interconnected undertakings together as GICU is that the behaviour of these interconnected undertakings cannot be expected to be competitive. It will be collusive (anti-competitive) aiming at maximization of total 'group's' profits. A MNC operates in different countries as a centrally controlled enterprise with global profit maximization as its objective. Different affiliates of MNCs are either horizontally or vertically diversified or show conglomerate characteristics. Sometimes the same MNC operates in a country with more than one affiliate. It is difficult to expect that the different affiliates of a MNC operating in a country would compete among themselves, since their ultimate aim is maximization of total profits than individual profits. Therefore, they will synchronize their activities and share the market accordingly. The objective behind the fragmentation of market and operation under different garbs may be inter alia to (i) avoid registration under the acts like MRTPA as Dominant Undertaking, by fragmenting market share, (i) manipulate licensing if expansion of the existing undertakings is not possible. Thus the character of the affiliates of a MNC is much the same as that of the components of local GICUs. The only difference is that these undertakings are interconnected through an non-resident body i.e. the parent MNC. This is even worse because this often results in

the affiliates indulging in the manipulation of transfer prices which involves the drain of foreign exchange resources. In fact, the nature of relationship and control over the affiliates by the parent (MNC) is stronger than in the case of local GICUs since equity holding is not the only instrument of acquiring control in this framework. The parent (MNC) controls technology which is a proprietary asset, and many overt and covert restrictive clauses are inserted in the agreement at the time of technology transfer to the recipient affiliate.[25] If it is considered necessary to identify GIÇUs having total assets more than a certain limit, it is imperative to define interconnections so as to include outside 'connections' also and to ensure that undertakings connected in this way, get themselves registered. Otherwise it will be very difficult, if not impossible, to detect and curb anti-competitive practices by these undertakings.

A large number of giant MNCs have indeed more than one affiliate in India. The lack of explicit interconnection among these affiliates within the country have enabled many of them to avoid registration under the MRTPA as interconnected undertakings. A few examples are given below:

The giant international tobacco monopoly British American Tobacco (BAT) operates in India through more than one affiliate. According to 1975 information, its tobacco division had controlling interest in three companies operating in India viz. ITC Ltd. (44 per cent equity), Indian Leaf Tobacco Development Co., Isle of Man (72 per cent) and Vazir Sultan Tobacco Co. Ltd. (VST) (26 per cent shareholding).[26] Local assets of Indian Leaf Tobacco Development Co. were later acquired by ITC which has now diluted its foreign equity to 40 per cent as per FERA regulations.[27] BAT, through its wholly owned subsidiary Wiggins Teape Ltd. also controls Tribeni Tissues Ltd., and Molins India Ltd. through its associate company Molins Ltd. Though ITC Ltd. is registered under MRTPA as dominant undertaking with its subsidiaries and other interconnected undertakings in India, the MRTPA has failed to take into account ITC's interconnections with VST, Tribeni Tissues and Molins India.[28] This is more serious in view of their joint hold over the market for cigarettes, with ITC controlling 37 per cent and VST another 24 per cent, and therefore, the total hold of BAT of 61 per cent of the Indian market for

cigarettes.[29] Not only this BAT's empire in India is a fine example of verticle diversification. The erstwhile Indian Leaf Tobacco and now ITC deals with leaf tobacco, Molins manufactures cigarette making machinery, Tribeni Tissues produces cigarette paper and finally I.T.C. produces cigarettes and markets them.

The case of Hoechst A.G. is also illustrative. This German giant has controlling interests in a number of Indian companies e.g. Hoechst Pharmaceuticals Ltd. (HPL), Hoechst Dyes and Chemicals Ltd. (HDCL), Polyolefins Industries Ltd. (PIL), Colour-Chem. Ltd. (CCL), British Paints Ltd. (BPL), Roussel Pharmaceuticals Ltd. and Uhde India Ltd. Hoechst AG has direct equity in the first four companies while British Paints Ltd. is controlled through Hoechst's UK subsidiary: Berger, Jenson, Nicholson Ltd. In Roussel Pharmaceuticals it has direct equity through Roussel Uclaf, which was later acquired by Hoechst AG, as well as indirect equity through Hoechst Pharmaceuticals. Uhde India Ltd. is held through Hoechst's engineering subsidiary Freidrich Uhde G.m.b.h. in which Hoechst's share is 77 per cent.[30] Hoechst AG had interest in one more paint manufacturing concern in India viz. Jenson & Nicholson Ltd. But it turned out to be a losing venture due to its inability to compete with the local firms. Hence Hoechst disinvested its shareholding in Jenson& Nicholson Ltd. which was incidentally made viable by the local management later.[31] Since HDCL, PIL and BPL were promoted by the Hoechst AG in collaboration with the house of Mafatlals these are registered under the MRTPA as undertakings interconnected with other undertakings of Mafatlal house. HPL is a closely held company in the sense that 50 per cent of its equity is held with Hoechst AG and another 48 per cent with United Breweries. Hence HPL along with its subsidiary Roussel Pharmaceuticls is registered under the MRTPA as undertakings interconnected to other concerns of United Breweries. Colour-Chem. on account of its interconnections with undertakings of the monopoly house Khatau is registered under the MRTPA. It has, however, recently represented that it is not a part of the Khatau house. Uhde India is not yet registered under the MRTPA. Since three of Hoechst's affiliates viz. HDCL, CCL, PIL deal in Dyes and Chemicals, their products are together sold by HDCL alone under the common 'Hoechst' trade name. Thus

the MRTPA ignores the interconnections between HDCL, PIL, BPL sub-group of Hoechst company's with those of HPL, Roussel, CCL and Uhde, though each one of them is an integral part of the same multinational chain.

A similar case is that of Siemens A.G. which apart from a large number of foreign collaboration agreements with a public sector enterprise, has interests in four Indian concerns viz. Siemens India Ltd., Cable Corporation of India, Bharat Bijlee Ltd. and Polydor Ltd. The first is registered under the MRTPA as an independent undertaking. Cable Corporation is registered under the Act as an undertaking connected with the house of Khatau. Polydor (now Music India) is an affiliate of Siemens A.G.'s joint venture POLY GRAM G.m.b.h. with Philips. Siemens India, Cable Corporation and Bharat Bijlee are in the electrical engineering industry and hence, till recently, Siemens India was the sole selling ageny for all the three companies to avoid any competition. Despite this the MRTPA does not take care of interconnection of these undertakings.

One classic example of illusive competition between different arms of a multinational monopoly is the American Corporation, Rank Organisation. Two Indian companies viz. Bush India Ltd. and Murphy India Ltd. are affiliated to Rank Bush Murphy Ltd., a company in Rank Organisation. It is interesting to note that both the Indian affiliates produce almost the same range of products and one of them uses one part of the parent company's name i.e. Bush, as a trade name while the other affiliate uses the other part i.e. Murphy. Murphy now controls 27 per cent of organised sector market of consumer electronics and Bush another 16 per cent, making Rank Organisation's combined hold over the market 43 per cent.[32] But MRTPA is yet to recognize this fact.

Many more examples showing failure of the MRTPA to take note of outside interconnections can be given. An illustrative list has been provided in Table 2. The length of the Table suggest that multinational monopolies are not a matter which can be ignored by any Anti-Monopoly legislation. It seems that the problem of interconnections of the companies through non-resident unertakings was never thought of by the formulators of the MRTPA.[33] Still, it is not difficult to accomodate most of these interconnections even under the existing definitions.

But, the issue of interconnection, under the law, is decided by the company itself which would naturally try to register only the very explicit interconnections.

In this section, we have examined the efficacy of the corporate regulatory mechanism with respect to foreign capital in India, with particular emphasis on the efficacy of the Indian anti-monopoly legislation in regulating multinational monopolies. It has been observed that in India, foreign controlled enterprise has been defined very vaguely and hence its identification for purposes of regulation becomes a difficult task. The FERA definition is arbitrary and leaves a large part of foreign controlled enterprise unidentified. The Licensing under the I(DR)A follows the FERA definition and again suffers from the above limitation. Thus there is a need to define foreign enterprise on the basis of control.

The Indian anti-monopoly legislation too applies only to a part of the multinational monopolies. We have illustrated with the help of a few examples that many MNCs operate in the country through more than one affiliate. Though these affiliates are interconnected through the parent MNC and are, therefore, non-competitive, they have avoided registration under the MRTPA as interconnected undertakings. In the absence of even their identification, proper regulation of these multinational monopolies becomes a formidable task.

Section II: **Management Control of Foreign Subsidiaries in India**

Multinational Companies are placed in an advantageous position and enjoy a very important place in the world economy. There are various factors responsible for this. First, they are large economic enterprises and have command over vast economic resources. Secondly, they possess modern sophisticated technology and therefore have better competitive power. Thirdly, they are able to exercise control over the market structure and enjoy a position of monopoly. Fourthly, there are other social and consumer behaviour reasons which also provide the MNCs with an edge over others. Moreover, multinational corporations in developing countries are many a time first entrants in the industry and therefore have an advantage over the later entries. Apart from all

these advantages that MNCs enjoy, there is yet another very important factor that further enhances their position in the international sphere. This is the fact that they are managed by the 'elite' and very influential well connected local and international personalities.

The members of the boards of multinational companies are deliberately, carefully and consciously selected so as to give the MNCs the advantage of public esteem, high integrity professionalism, local image, resourcefulness, government recognition, high business contacts and good relations with financial institutions.

In this section we would essentially be concerned with the additional benefits that accrue to the MNCs by virtue of their carefully selected boards. It is often overlooked that the pattern of diretorships of a company has a very crucial role to play in the economic well being of the company.

A study of the mechanisms by which foreign companies exercise a disproportionate management control over economic activity should include an examination of the following aspects:

(I) The foreign equity participation in the subsidiaries and the control exercised by parent companies though their Articles of Association

(II) The pattern of directorships of the borads of foreign subsidiaries in India which would reveal

i) their association with financial institutions
ii) their association with apex business organisations like FICCI and ASSOCHAM
iii) their past association with the government of India
iv) their association with Indian big business houses
v) the presence of foreign directors on their boards and their association with the parent company and its affiliates.

(III) An industry-wise classification of directors

An enquiry into the first aspect would reveal some of the methods employed by MNCs in India to exercise a disproportionate control over these companies in spite of government of India's <u>declared</u> policy of regulating foreign enterprises in India. In an attempt to show this, we

have taken a sample of 28 companies and studied the restrictive clauses in their Articles of Association. In order to study the last two aspects, that is, the broad pattern of directorships of foreign companies in India, we have selected a sample of the largest forty six subsidiaries operating in India in 1975, each having a turn over of more than Rs.10 crores.[34] This sample is thus oriented towards the larger subsidiaries.

Limitations of data:

There is no single official source providing comprehensive information about the directorships in foreign controlled companies in India. Information on the directorships held by various individuals in companies in India and abroad, their past careers, their associations with business lobbies and governmental institutions etc. had to be collected from a variety of sources. Despite consulting the library of Prospectuses and Annual Reports as well as the Directory of directors available with the Corporation Information system IIPA, we were unable to obtain complete information on the above aspects for all the companies studied. However, despite this limitation, the present study is to the best of our knowledge the most comprehensive examination of directorships in foreign controlled companies in India. Similarly, the Articles of Assciation for all the companies studied were not available.

In view of the limited data available, it would appear that our study would tend to under-estimate certain phenomenon, such as interlocking of directorships, and various other mechanisms of control exercised by MNCs over companies in India. Similarly, the extent of the associations that directors of these companies had with business lobbies and governmental institutions, is also understated. Not withstanding all these limitations we believe that it is possible to arrive at some general conclusions regarding the mechanisms by which the MNCs exercise disproportionate control over th economic activity of the foreign controlled companies in India.

(1) FERA and Dilution of foreign Control:

It is a well known fact that the control of foreign subsidiaries has remained with the parent companies by virtue of their high equity

participation in the companies. Not only are the parents able to exercise control in cases where they hold majority shares in the subsidiaries but they are also able to retain this control even with a very low equitly holding. This is ensured through clauses in their Articles of Association.

In India legislation regarding foreign capital has not ben very effective in regulating foreign capital. The foreign exchange Regulation Act, 1973, the only specific legislation concerning foreign enterprises in India was perhaps aimed more at conserving foreign exchange resources than at regulating foreign capital. This is evident from the Foreign Exchange Regulation Bill, which was introduced in the Lok Sabha in 1972 "to consolidate and amend the law regulating certain payments, dealing in foreign exchange and import and export of currency and bullion for the conservation of the foreign exchange resources of the country and the proper utilization thereof in the interests of the economic development of the country."[35]

The FERA nowhere lays down its concern with management controls of the Multinationals over their affiliates in India. It was however, intended to bring down the foreign equity of subsidiaries and branches of foreign companies operating in India, and this was to be done only in selective areas. Exemption was granted to foreign companies which were either export oriented or which needed sophisticated technology (egg tea, drugs etc). Apart from this the FERA suffered from slow implementation, regarding the provision calling for the dilution of equity. The companies did not comply with this provision for several years after the enactment of FERA, in 1973, so much so that the dilution process has still not been completed, giving ample time and opportunity to foreign enterprises to build safeguards and circumvent the FERA provisions.

It is important to study whether dilution of foreign equity (where achieved) also resulted in the dilution of control. Were the foreign parent companies able to exercise as effective control even after dilution of their equity and if so, what strategy did they employ?

An examination of these foreign companies shows that even in cases where dilution has been achieved control has still been effectively exercised by them. In fact, the reduction of 40 percent foreign equity under FERA is an arbitrary percentage of determining control and does not necessarily lead to the further indianization of these companies.[36] It is an extremely liberal definition and does not takes into account the fact that effective control can be exercised even with a much lesser equity[37]. In fact dilution of foreign equity to 40 per cent has been done by most companies in India by the issue of fresh equity to the Indian public whereby shareholding are widely dispersed amongst a large number of small shareholders. The foreign shareholder still remains in a dominant positin and can continue to exercise control in view of being the single largest shareholder in the company. Moreover, these companies which have diluted their equity to 40 percent, no longer remain foreign companies, but are classified as Indian companies, which enables them to avail advantages open to Indian companies, in terms of licences and funds. Under the guise of an Indian company, they have had ample opportunities to diversify and expand.

Despite such limitations of the FERA, MNCs have devised numerous additional means of exercising effective control over their affiliates. An important method employed is the insertion of certain restrictive clauses in the Articles of Association of Parent Companies. Through these clauses, the parent companies are able to exercise administrative, technical and business controls over the subsidiaries operating in India. It is worth while to note that this they are able to do even with much less foreign equity.

In an attempt to show, the controls exercise by parent companies through their Articles of Association, we have taken 28 companies, having foreign equity participation[38]. A study of these companies shows that out of 28 as many as 20 companies have restrictive clauses in their Articles of Association, which enables them to have a dominant position in the affairs of these companies in India. 19 companies have provisions in their Articles of Association, which give rights to the parent companies to appoint chairmen, directors and managing directors on the boards of the affiliates, so long as they hold a certain percentage of the equity in the total share capital of the company. It

is significant to note that in the case of a considerable number of companies the parents can exercise the right to appoint directors on the affiliates board even if they hold a very small percentage of equity. Philips diluted its foreign equity in 1979, but much before complying with this FERA provision, if had inserted a clause giving Philips Holland, the parnt company the right to appoint directors on the board, so long as it held 26 percent equity. Similarly in the case of Guest Keen Williams, the parent company (Guest Keen and Nettlefolds) and / or its subsidiary have the right to appoint the Chief Executive, so long as they together hold 25 percent of the equity. This provision is there despite the fact that the parent company holds 58 percent equity in Gest Keen Williams. In the case of Abbott Laborataries India Ltd, the parent company will have the right to appoint one third of the total number of directors including the Managing Director/Managing directors, Chairman and Vice Chairmen, so long as the parent company holds as little as 25 percent of the equity share capital of the company. It is interesting to note that some parent companies have reserved the right to appoint directors on the affiliate's board, without laying down any condition regarding their specific equity participation.

For example the Articles of Association of Associated Bearing Company, Pfizer and Indicarb have clauses which give their parent companies the right to appoint Chairman and/or Managing directors on the boards of these companies in India. Aktibolaget SKF of Sweden, (parent of Associated Bearing) shall always select the Chairman of Associated Bearing. Pfizer will have the right to appoint one third of the directors of the company, including the Chairman. Adamas, parent of Indicarb 'will always appoint dirctors on the board of Indicarb, so long as it holds shares in the company'. This they will do, regardless of any fixed foreign equity participation in these companies. The parent company of Reckitt and Coleman exercises control over it by a provision in its Articles of Association, which gives it the right to appoint Managing Directors or Deputy Managing directors, so long as it holds not less than 40 percent shareholding in the company. Sometimes parent companies in order to circumvent the FERA have inserted clauses or altered the old ones, to retain their control over their affiliates in India. For example, HMV Gramaphone Company of India had in its Articles

ofAssociation a clause which gave the parent company the right to appoint one third of the total number of directors so long as the parent held 51 per cent equity share capital in the company. It is important to note that in December 1976, this article was altered to provide the UK Company with the aforesaid rights, so long as it held only one third of the total issued equity shares in the company. This was perhaps done to allow the foreign parent to continue to retain control over its affiliate in India, even after the dilution of the foreign equity participation under FERA in Feburary 1977[39].

Similarly in the case of CWS India, an additional article was inserted in January 1979, giving CWS U.K., the right to appoint one third of the total number of directors who shall not be liable to retire by rotation, so long as C.W.S. U.K. and or their nominee or nominees hold not less than 40 percent of the quity Share capital in the company. This was done perhaps in anticipation of complying with the FERA provisions of diluting foreign equity.

Stork, the parent company of Stormac India Ltd, ensures its control over its affiliate through clauses in its Articles of Association which give it the right to appoint one director on the board of the company so long as it holds as little as 20 per cent of the total paid up equity capital. Similarily the articles of association of Stork has a clause which lays down that, 'certain resolutions cannot be passed by the board of directors or its committee unless the director appointed by Stork votes in favour of it.'

Apart from the administrative control, the parent companies also have certain restrictive clauses regarding the use of the trade name, which enables them to exercise certain techical and business controls. For instance, Abbott Laboratories will have the licence to use the world ABBOTT in its corpoate name and trading style and use the Abbott corporate logos for and in connection with the activites of the company only till such time, as the parent company holds 40 per cent of the equity share capital of the company and exercises defacto control over the management and affairs of the company. Further terms and conditions are that all questions arising at a meeting of the board will be decided by a majority of votes and in the case of equality of votes, the

chairman will have the casting vote. Also no resolution will be passed without the affirmative vote of the non-retiring director or his alternate director or his managing director.

The instances cited above are only some of the existing cases. As we had stated earlier because of the limited availability of data, it was not possible for us to examine the Articles of Associations and Prospectuses of a large number of foreign controlled companies. The cases cited of foreign chairmen, managing directors etc in some foreign controlled companies (see Table 11) probably indicate other instances where foreign control has been retained through restricive clauses.

It is evident from the case of these companies having foreign equity participation, that MNCs have devised various methods of exercising disproportionate control. This is so because of the limitations of Indian legislation towards th control of foreign enterprises. The Foreign Exchange Regulaion Act merely laid down restrictions on the percentage of foreign equity. It did not have any provision to challenge the disproportionate control exercised through restricive clauses in the Articles of Association of parent companies. A considerable number of companies with a very small percentage of foreign equity participation have managed to exercise effective conrol over the economic acivities of these companies through the clauses in the Articles of Association. This they do by reserving the right to appoint chairmen, directors and managing directors, impose restrictions on the use of trade names, cease to render technical assistance and control the preceedings of the boards. It is significant to note that depending upon the nature of legislation in India towards foreign enterprises, the parent companies from time to time have added new clauses or changed old ones to safeguard their companies' interests and retain effective control over them. Philips dilution of its foreign equity in 1979 and the insertion of a restrictive clause in 1976 is a case in point.

(2) Pattern of Directorships of Foreign Subsidiaries in India

A study of the directorships of foreign subsidiaries in India reveals that there is considerable intrlocking of directorships.

Interlocking of directorships may be understood as a phenomenon whereby a handful of influential people hold multiple directorships leading to the domination and control of a large number of companies. It was not unusual for one person to hold as many as 50 directorships at a time[40] resulting in the concentration of control in a few hands. This generated a lot of concern and debate and the law had to intervene. Section 275 of the Companies Act, 1956 laid down that, 'no person should hold more than 20 directorships at a time.' It is worth while to note that, the directorships of private companies and of associations not for profit and alternate directorships were however to be excluded.[41]

What is proposed to be emphasised here, is that despite this restriction of not permiting one person to hold more than 20 directorships at a time, we find that there is still considerable interlocking of directorships and the present restrictions have not led to the abolition of the concentration and control in a few hands of foreign controlled companies in India.

On the basis of our sample of 46 foreign companies, we find that the directorships held by some directors of these 46 companies over a period of 5 years, exceeds the limit of 20. In fact, the study shows that some persons have held as many as 30 directorships over a period of 5 years. This is perfectly within the ambit of the existing legal system. But it cannot be overlooked that under the Companies Act, 1956, directorships of Private Ltd. Companies and charitable trusts are not taken into account is computing the number of directorships. The number of alternate directorships held also do not come under this ceiling. For instance, M.N. Kapadia who held 16 directorships in 1980 was also director of 8 Private Ltd. Companies in the same year. Similarly, R.A. Shah, who held 18 directoships in 1982 was simultaneous by an alternate director in 16 other companies. M.V. Arunachalm, a former president of FICCI and a member of the Murugappa chethar business family was a trustee of three Murugappa group Trusts in 1980. Hence under the present provisions, the entire purpose of the stipulation of limiting a persons directorships to 20 in a year, namely to reduce his control and domination over a large number of companies is defeated. Moreover, reducing a person's directorships to 20 in one year does not really reduce his influence and control over companies on which he has served

as a director on alternate director in the previous year/years. He could still be weilding influence over them in the capacity of an ex-director or by gaining benefits from them for the companies on which he presently holds a directorship, or vice versa.

This phenomenon of a person holding directorships of a large number of companies implies a certain degree of interconnection between these companies. Indeed, under the Monopolies and Restrictive Trade Practices Act, 1969, if one third of the directors of a company are also directors on the board of another company, the two companies can be classified as interconnected undertakings.

Interlocking of directorships not only leads to the concentration of control but also tends to secure greater collaboration and cooperation between the integrated units, and prompts them to adopt a more unified and concerted, policy in all matters affecting their common interests.

The trend to hold multiple directorships could be for a variety of reasons. Sometimes directorships are much sought after even in the absence of fees. The reason is often an interest in the company in consequence of shareholdings, which are either personal or belong to a person or group whose interests are to be sefeguarded. Directors of insurance companies and financial institutions frequently have seats on boards by reason of the shareholding of their companies. Purely financial interests may also play a part. Officers and directors of banks are often directors of companies which are debtors or customers of their banks.[42] Indirect advantages may also be gained, such as the possibility of patronage or the obtaining of inside information. The use of inside information for private purposes is the most objectionable abuse and under some legislationshas given rise to restrictions and remedies.[43] In many cases, however an invitation to join comes from the board itself, either in order to strengthen its position by including holders of substantial amounts of stock, or to utilize expert knowledge in trade, finance or production. Candidates of reputed influence and in good relation with government such as Cabinet Ministers out of office and retired government officials and generals are often elected to the board of large companies, which undoubtedly benefits the companies on

which they serve as directors. Political patronage also plays some part, and in many cases persons have been added to the boards of companies, especially those of lesser standing, because of their familiar connections.

Another common feature, is the interlocking of directorships between companies, operating in related or similar fields. As directors of these related companies they help in promoting each others interests. Very often prestige and loyalty to the enterprise plays a very important role, sometimes equal to or even stronger than financial interest.

Before we study the significance of interlocking of directors in this sample of 46 companies it would be important to distinguish between two categories of directors that we find on the boards of thes companies, namely, employee directors and part-time directors. Employee directors include professionals like Chatered Accountants, Engineers and other technical people who are appointed to look after the day to day affairs of the company. Such persons are generally directors of only one company which they serve. However, the other category of directors are the ones who are relevant to our study of interlocking of directorships. They are usually influential people either in government, business or financial circles and hold directorships in a large number of companies.

Our study of 443 individuals serving as directors on 46 foreign companies shows that 261 individuals hold single directorships; 182 of them hold directorship on more than one company[44] of which 74 individuals hold less than 5 directorships each. The total number of directorships held by 443 persons is 1431 and out of this, 182 individuals hold 1270 directorships among themselves.

182 individuals, out of 443 directors holding more than one directorship each, seemingly a small proportion, would constitute a much higher proportion if the 261 professional or employee director are excluded.

We shall now try to see the numerous ways in which these directors are used by the parent companies to exercise control through their association with various organisations.

(i) Association of directors with financial institutions:

Through the interlocking of directorships, some individuals come to hold directorships on the boards of financial institutions and manufacturing concerns. Sometimes directors of banks and other financial institutions are appointed directors on the boards of foreign companies in the capacity of nominee directors. Such directors have a specific role in these manufacturing concerns, namely to safeguard the interests of the shareholdings of their respective financial institutions. Apart from nominee directors, it is not unnual to find ex-directors of financial institutions serving on the boards of large companies. Such individuals are offered plural directorships because of their control over financial resources and eminence in financial circles. Such companies on which they serve as directors have the advantage of obtaining funds and sometimes even withholding credit to competing concerns. Our study shows that as many as 29 companies out of the 46 subsidiaries are interlocked with financial institutions through 27 persons.[45] It may be mentioned here that these 27 directors of financial institutions like banks and insurance companies, apart from being directors of 29 foreign companies in this sample, have also been directors of another 341 companies (both FERA companies and companies belonging to big business houses) between 1977 and 1982.

(ii) Association of directors with apex business organisations:

Another important finding of this study is the close association of these foreign companies with apex business organisations. Most MNC's in order to gain economic benefits from the government realise the necessity to be politically active, to be able to influence government policy towards foreign capital. This they seek to do by becoming members of business organisations like ASSOCHAM and FICCI.

The study of 46 foreign companies shows that a large number of directors on the boards of foreign companies are also members of the various committees of ASSOCHAM and FICCI, the two most important apex organisations of business lobbies in the country. Association of foreign companies with these two important pressure groups, particularly, ASSOCHAM, a chamber dominated by foreign capital, helps

these companies a great deal in negotiating with government and influencing government policy towards foreign enterprises.[46] That this association with ASSOCHAM is considered vital by these companies would appear to indicate the importance they attach to lobbying with government and the exercising influence to shape government policy in other interests. Our study reveals that out of 46 companies, 35 are members of the ASSOCHAM.[47] Not only this, most of these foreign companies have as Directors of Chairman people who have been presidents of ASSOCHAM or have been members of important committees of ASSOCHAM. As many as 31 directors are also members of the ASSOCHAM. For example, M.N. Wagle, a retired ICS officer and director of Associated Bearing company, Glaxo, and WIMCO, was The first Indian to become The President of ASSOCHAM in 1968. Keshub Mahindra (of the Mahendra group), Chairman of Otis Elevator Company India Ltd., Union Cabide India Ltd., Indian Aluminium company and director of Metal Box and WIMCO was President of ASSOCHAM in 1970-71. Bhasker Mitter, director of Chloride, Dunlop, Union Carbide, Alkali and Chemical Corporation of India, India Oxygen and Metal Box was President of ASSOCHAM, in 1971-72. Akbar Hydari, director of WIMCO, Crescent Dyes and chemicals, Atlas Copco, Associated Bearing Company, Metal Box and Chemicals and Fibres of India, was President of ASSOCHAM in 1975.[48]

(iii) Association of directors with the Government:

Another strategy employed by foreign companies in India is to appoint retired ICS/IAS officers on their boards. It is a common belief that senior ICS officers are invited to join the boards of Multinational companies because of their administrative experience and capabilities'. This may be true, but more important is the fact that these companies may use bureaucrats as intermediaries to gain easy access to the government. Such influential bureaucrats who have held extremely important posts with the government and who have built up a very wide network in government circles and important ministries, are a great asset to the companies in which they serve as directors. They play a very vital role in influencing decision making in government in favour of the corporate sector or in obtaining licences and favours for their companies. Apart from this, the presence of such ifluential people on

their boards adds to the prestige and credibility of these companies. For example, S Bhoothalingam a retired ICS officer, is director on the boards of Glaxo, and Tribeni Tissues apart from holding directorships on a large number of companies that belong to Indian big business houses. It would be important to note that he was Secretary, Ministry of Steel Mines and Fuel, 1963-1961; Secretary, Ministry of Finance, 1963-1964 and Secretary, Department of Economic Affairs 1964-66. He was also Chairman of the Committee on Rationalisation and Simplification of Tax Structure, Ministry of Finance 1966-67 and Chairman of study group on Wages, Income and Prices 1977-78 S. Jaganathan, another senior ICS officer and director of Tube Investment of India had served as Secretary, Ministry of Finance and was Comtroller and Auditor General of India 1966-1972. S.Ranganathan, Secretary, Ministry of Industry 1956-66, served as director on the board of Lucas TVS, Sandoz, Ashok Leyland and Guest Keen Williams. N. Dandekar a retired ICS officer and director of Asbestos Cement and Bush Bloake Allen India, had been Income Tax Commissioner of Calcutta, Punjab, Delhi and Bengal, 1941-1948. He was member of the Central Board of Revenue 1964, Joint Secretary, State Ministry 1948 and member of the Committee on Federal Financial Integration 1948-49. Dharam vira, a retired ICS officer and a Former Governor of West Benal, is director of English Electric Company and the General Electric Company. N.M. Wagle a retired ICS officer, has been associated with a number of multinational companies in the capacity of director. He is the director of WIMCO, Glaxo, Associated Bearing Company and Cromption Greaves Ltd. K.B. Lall, another retired ICS officer and a former Secretary to the Union Government is Chairman of Guest Keen Williams. N. Subramanyam, retired ICS is director of Ashok Leyland and Lucas TVS a part from holding diretorships in other Indian Companies. H.C. Sarin, director of Cadobury was Defence Secretary.

Apart from bureaucrats who have been linked with multinational Companies in India, we have certain other influential persons who have held directorships in multinational companies in India. Dr.R.S.M. Muthiah Chettiar, (of the Muthiah Chettair group), first Mayor of Madras, 1932-35 and Minister for Education and Public Health, Madras 1941-1946, is director of E.I.D. Parry. Mr. Jaykrishan Harivallabhdas., Mayor of Ahmedabad, 1961 is director of Bayer. N.A. Palkhivala, Indian

Ambassdor to USA, 1977-79 is on the board of Associated Bearing company apart from holding directorships in a large number of companies belonging to the Tata house. J.S. Raj, director of Hindustan Lever and Union Carbide, had served in the Minister of Food and Agriculture, 1945-1953 and was Additional director, Stock Exchanges, Ministry of Finance, 1959-60. In addition to this he was Vice-President of the International Finance Corporation Washington, 1960 and on deputation to IMF, Washington as Division Chief. H.C. Bijawat, director of Hindustan Leverl and General Manager Union Carbide was a consultant with the Planning Commission,Government of India, from 1973-1975. V.G. Rajadhyaksha, Chairman, Hindustan Lever was a member of the Planning Commission. There are no less them 15 influential people who have held important posts with the Government who are linked with 21 foreign companies, apart from their directorshisps in Indian companies

The importance of this phenomenon can not be understated. The boards of subsidiaries of MNCs are deliberately formed so as to include senior government officials and influential state people who are utilized to further the interests of the multinationals. A number of government functionaries and persons playing an important part in the political life of the country, often in the course of work come into contact with representatives of the foreign controlled companies and have to make decisions affecting the latter. Even when there is no direct contact there is usually an indirect influence through the activities of peers. The possibility of a prestigous directorship after retirement often would tend to make serving government officials more sympathetic to the MNC affiliates. Moreover, a number of relatives of government officials and political personages are employed by these companies. Because of the obvious difficulties in obtaining such information, we have been unable to examine this feature. However, there is sufficient evidence to indicate that the prior associations with government, of directors of foreign controlled companies in India, are an important factor in the formulation and implementation of the official policies affecting these companies.

(iv) Association of directors with Indian big business houses:

One important fact that emerges from our study of directors of the 46 subsidiaries, is the interlocking of directorhsips between foreign companies and big business house companies. All the 46 companies have atleast one if not more persons holding directorships in Indian companies belonging to big busines houses.[49]. This goes to show that all foreign companies recognise the need to establish close links with indigenous big business houses.

Association of foreign companies with big business houses undoubtedly benefits these companies. This association becomes important in the case of new companies entering the Indian market. Such foreign investors who are new to the host country associate with local estalished business houses for availing advantages of their marketing network and good will. For example, it has been noted that the major consideration of G.D. Searle's (an American MNC) collaboration with Rallis India (a Tata House Co.) in promoting searle India Ltd. was to avail of the advatage of a very well established marketing network of Rallies India.[50]

It becomes important for MNCs to have Indians as directors on their companies, because having influential Indians on their boards enlists for them allies in their efforts to deal effectively with government and financial institutions for obtaining licences and funds. The point made earlier about the importance of the previous associations with Government of directors in foreign controlled companies is relevant here also. Apart from this, it is a sort of manifestation of indianisation of management control and deflects criticism in Parliament.

(v) Foreigners as directors of foreign companies:

Sometimes, multinational companies consider it essential to have foreigners as directors or chairmen on the affiliates board. This is perhaps, to ensure that the interests of the parent company are safeguarded adequately. Despite the government of India's policy of indianisation of management of foreign companies, there is still a tendeny to appoint foreigners as directors on the boards of foreign companies operating in India. Our study shows that out of 46

subsidiaries, as many as 40 have foreigners as directors on their boards.[51] The number of foreign directors out of 443 individuals is 125. Most of these foreigners are also on the boards of the parent company and its affiliates. For example, G. Bergkvist, director of Associated Bearing Company is on the board of the parent company AKTIEBOLAGET SKF, Sweden and eight of its affiliates G. Kadegge and R. Braun, directors on Seimens India are nominee of Seimens A.G. West Germany. Nills E. Granberg, director of WIMCO holds directorships on six affiliates of the parent company. E.A. Trigg, director of Indian Aluminum is also director of the parent company, Alcan Aluminum Ltd. Canada and six of its affiliates. T.H. Hale, Vice President of the parent company, Alcan Aluminium Ltd, and director of eight affiliates of the parent company is alternate director of Indian Aluminum Company. C.W. Birket, apart from holding a directorship in Indian Aluminium company is on the board of 2 affiliates of the parent company. Dr. Henry Alexander McKinnell, director of Pfizer, is on 12 other affiliates of the parent company. K.F. Bunshah and David Sutherland Reid, directors of Pfizer in India also hold directorships in affiliate companies. Similarly H. Faure, president of Otis elevator International Inc and Otis Europe S A, Vice President of Ascinter Otis SA, Deputy Chairman of Otis Elevator Company Iran and director of seven affiliates is director of Otis Elevator company in India. W. Dannenberg director of four Otis companies abroad and Vice President of Otis Elevator International Inc is director of Otis Elevator Company in India. Furthermore, Tube Investments of India has as director, Brian Smith Kellett who is chairman and managing director of the parent company and director of four affiliates J.M. Rehfield, director of Union Carbide is on the board of 3 affiliates of the parent company.

This clearly shows that parent companies tend to assure that their control is exercised effectively through their own people on their affiliates board in India. The idea of foreign directorships is to ensure that a company or affiliate operates within its global strategy. Since MNs in host countries are obliged to operate along lines that are conducive to national interests, foreign directors ensure their committment to the parent companies. This is important especially in decisions relating to location of new investments, allocation of export,

markets, research programes, determination of prices etc in the host countries. Thus the need for foreign directors to exercise control over the subsidiaries or affiliates is to ensure that they keep within the overall company structure and planning.

3. Industry-wise classification of directors

An industry-wise classification of 45 directors of foreign companies, who have hold more than 10 directorships each, shows that they exercise control over diverse sectors of the economy. With the exception of 3 persons (who happen to be foreigners and also on the boards of the parent company and its affiliates) all the others hold directorships in companies operating in diverse fields like agricultural industries, commerce, transport, foodstuffs, textiles, leather, metals, chemicals, fertilisers, mining, construction and machinery.[52]

Another trend that emerges from the study of directors of companies and their areas of operation is that all of them hold more than one directorship in companies operating in similar or related fields. This is significant for common directorships in similar fields may reveal a tendency to operate as a cartel and promote each others interests. It may be mentioned here that with the exception of 4 persons, all the rest have held common directorships in more than two sets of related companies.

We have taken examples from the 46 subsidiaries of cases where people have held common directorships in companies operating in similar fields. For example, A.M.M. Arunachalam (of the Murugappa Chettair group), is director of Ashok Leyland and Tube investments of India, which process and manufacture transport equipment like Motor vehicles and bicycles. Akbar Hydari, is director of Assciated Bearing Company andMetal box, both deal in metal products. Bhasker Mitter, is director of two companies dealing in electric batteries, namely Union Carbide and Chloride. Keshub Mahindra (of the Mahindra group) holds a directorship in India Aluminium and Metal Box, both companies operating in Metal products, and Otis Elevator and Union Carbide, companies which deal in machinery. U.C. Mahtab, is director of Indian Aluminium and Metal Box, companies manufacturing metal products. P.K. Mistry, is director of

Indian Aluminium and Metal Box, companies that manufacture metal products N.S. Phaterphekar, was director of two drug companies namely Mercke Sharp and Dhome and Boots.

Interlocking of directorships between related companies, helps them sell, distribute or consume each others products and thus create a preferential access to market outlets. For example, Union Carbide could have the advantage of selling its products to Ashok Leyland because of a common director, A.M.M. Arunachalam, Akbar Hydari's directorship in Metal box, Associated Bearing and Atlas Cobco could help the two former companies to market their metal products to AtlasCopco, a company with deals with Machinery and engineering workshops. Bhasker Mitter's, directorships of India Oxygen, a company which operates in gas work and steam supply for power and heating, could be catering to the other four companies on which he is also director namely, Union Crbide, Chloride, Dun lop and Metal Box. Similarly, R.K. Palit and Keshub Mahindra's directorship in Indian Aluminium, and Otis Elevator, could help the former company to market its metal products to Otis.

The significance of an industry-wise break up of the directors of these foreign companies is that it shows how a majority of them wield influence and control over such related and numerous sectors of the economy. Moreover, it brings out the close relaionship established through common directors between related companies.

From the above analysis it is amply clear that control of foreign subsidiaries lies essentially with the parent companies. They have utilized every available loophole in the regulatory mechanism in order to exercise disproportionate control over their Indian affiliates. As we have seen, these companies have adapted to changes in the system of economic regulation in order to perpetuate their control. Though the government has intended through FERA and other mechanisms to Indianize the management of foreign-controlled concerns, it did not regulate the drawing up of the Articles of Association which has permitted the latter to include restrictive clauses in order to continue their position of dominance. Moreover, whatever Indianization has occurred largely reflects the collaboration by the large Indian Industrial Houses with the MNCs.

Under the existing provisions of the Companies Act 1956, in view of the various exceptions made to the overall ceiling on directorships held at any one time, there is sufficient leeway for the continuance of the concentration of managerial control. Individuals are also able to serve for formally competing concerns with all the attended consequences like the creation of informal cartels and growth of monopoly. Moreover, the ceiling of 20 directorships itself permits a substantial degree of concentration of managerial control. It may well be argued that the existing ceiling could be halved if not reduced any further without any loss of managerial efficiency. If, policy-makers are indeed interested in significantly curbing this concentration of managerial control, amendments to the companies Act are necessary.

The nomination of directors serving on the boards of foreign controlled companies to the boards of public sector banks and financial institutions, as well as public sector companies, would only serve to diminish the once advocated "counter-valing" role of the public sector. There would also be an apparent conflict of interests, which in reality may not exist as these public sector institutions, not least of all because of the character of their boards of directors, may operate in favour of the foreign controlled comapnies. If it is really intended to curb the influence of pro MNC lobbies and to direct the activities of the foreign controlled companies in accordance with national priorities including the repeatedly affirmed socialist goal, it is necessary that directors of these foreign companies should not be permitted to direct the functioning of public sector institutions. This, of course is a policy matter involving far reaching changes in the entire area of economic policy. But it is clear from our study above, that the inter connections between the MNC affiliates and public sector institutions through common directors only creates a lobby for furthering the interests of foreign capital.

The practice of recruiting retired government officials and political personages to the boards of foreign controlled companies is another important practice resorted to, in order to maximise influence with government. This, as we have seen leads to another conflict of interest as serving bureaucrats and other influentials are tempted to be sympathetic to MNC affiliates in the hope of future employment or

because of influence exercised by their retired superiors serving in the affiliates. This is clearly a vital source of influence for MNCs. If this influence is to be curbed severe restrictions are to be imposed on the recruitment of such personages, particularly of bureaucrats serving in the important economic ministries and in related bodies like the Planning Commission and other public financial institutions.

The political influence of the directors studied is also utilized in the process of both formal and informal lobbies particularly ASSOCHAM. Our study has revealed the very substantial involvement of a large majority of directors in MNC affiliates in the ASSOCHAM. However, the evidence of interlocking of directorships between MNCs, their affiliates and the large Indian Industrial Houses demonstrates the phenomenon of increasing collaboration between large foreign and Indian Private Capital Through this collaboration the MNC lobby has been considerably strengthened, as influential Indian Industrial Houses have begun to lobby on their behalf. Important business leaders including ex-presidents o FICCI, like D.C. Kothari and M.V. Arunachalam have served on the boards of the foreign conrolled companies. These directors also serve on the very large number of official Advisory Committees e.g. the Central Advisory Council of Industry, Advisory councils for the various industries, the Board of Trade, the Import Advisory Council, the Export Advisory Council etc. Their membership of such committees enables them a great deal to make recommendations directly to the policy makers during the process of the formulation of important economic policies.

Taken together, all the factors examined above add up to a large and sometimes even decisive amount of political influence on the decision making proces in the economic sphere. This political influence is largely based on and is infact enchanced by the growing economic activity of the MNC affilates in India. Our examination of the foreign directors revealed that a significant proportion of them served as directors on affiliates of the parent company abroad. The others were direct nominees of the Parent Company.

Moreover, the economic activities of the MNCs affiliates are not restricted to a few sectors core of otherwise.[53] As indicated by our

industry wise classification of directors in Table 9, directors affiliated to foreign controlled companies participate in the management of enterprises in a large variety of industries. The interconnections established through common directorships in an ever widening range of economic activities only reflects the increased penetration of foreign private capital in the Indian economy. It is difficult to see how a process of corporate diversification which is a characteristic feature of MNC operation, can be curbed in India. The prospects of such diversification do after all constitute an important part of the incentives for foreign private investment in India. Nonetheless, the expansion and diversification of foreign private capital in India which is accompanied by the activities of its affiliates, only deepens the disproportionate control exercised by these MNCs on economic activities in India.

Our overall findings therefore generally indicate that the operation of the regulatory mechanisms have not only failed to curb the perpetuation of MNC control over companies incorporated in India (including non FERA companies), but have infact conributed to the increased role and influence of MNCs in the economic sphere as well as in the area of policy making.

TABLE 1

Distribution of MRTP Companies

Sl. No.	Sub-Section*	Total Companies Registered as on 31.12.1979	Companies Registered under FERA also in 1975	(3) as a % of (2)
	(1)	(2)	(3)	(4)
1.	a(i)	36	11	30.56
2.	b(ii)	961	116	12.07
3.	b(i)	36	13	36.11
4.	b(ii)	12	-	0.00
5.	a(i)(ii)	92	20	21.74
6.	a(i)/b(i)	10	3	30.00
7.	a(i)/b(ii)	1	-	0.00
8.	a(ii)/b(i)	22	8	36.36
9.	a(ii)/b(ii)	5	2	40.00
10.	b(i)(ii)	2	-	0.00
11.	a(i)(ii)/b(i)(ii)	1	1	100.00
12.	a(ii)/b(i)(ii)	-	-	0.00
13.	a(i)(ii)/b(i)(ii)	1	-	0.00
14.	a(i)(ii)/b(i)	20	9	45.00
	Sub-Total Dominant Under-takings (Sl Nos. 3,4,5,6,7,8,9,10,11,12,13,14)	110	36	32.73
	Grand Total	1199	183	15.26

Note: *Sub-section a(i) applies to large undertakings which independently control assets of not less than Rs.20 crore; a(ii) applies to undertakings which along with other undertakings of the same group (GICU) control assets of not less than Rs.20 crore; b(i) and b(ii) apply to undertakings which are dominant in some product line either independently or as GICU respectively. A company, however, might be attracting more than one sub-section, e.g., a 'large' undertaking which is 'dominant' also. Serial Nos.5 onwards indicate respective combinations of the sub-sections.

SOURCE: Corporate Information System, IIPA, New Delhi.

TABLE 2

An Illustrative Account of MNCs with more than one affiliate in India

Multinational Corporation and Indian Affiliates	Whether FERA 1975	Whether Regd. under MRTPA as on 31.12.79	Sub-Section of MRTPA, if any	Inter-Connection if any - Name of GIUC	Remarks
(1)	(2)	(3)	(4)	(5)	(6)
American Cynamid, USA					
1. Cynamid India	x	x	a(ii)	K.Bhai L. Bhai	
2. Colfax Labs.	-	-			
American Home Products, USA					
1. Geoffrey Manners Ltd.	x	-			
2. John Wyeth Brothers	x	-			
3. Wyeth Laboratories	x	-			
4. Wyeth India Ltd.	x	-			
Bayer, Ag. FRG					
1. Bayer India	x	-			
2. Colour Chem	-	x	a(i)(ii)	Khatau	See Note - 3
Boehringer Ingelheim, FRG					
1. Giturgia Bio Chemicals Ltd.	-	-			
2. Sturdia Bio-Chemicals	x	-			
3. German Remedies Ltd.					
Hawker Siddeley Group Ltd., UK					
1. Crompton Greaves Ltd.	-	x	a(i)(ii)	Thaper	through Crompton Parkinson Ltd.
2. Kirloskar Electric Co. Ltd.	-	x	a(i)(ii)	Kirloskar	

Contd...

Multinational Corporation and Indian Affiliates	Whether FERA 1975	Whether Regd. under MRTPA as on 31.12.79	Sub-Section of MRTPA, if any	Inter-Connection if any - Name of GIUC	Remarks
(1)	(2)	(3)	(4)	(5)	(6)
Cabaleries Et Trefileries DE COSSONAY, SA. SWITZ.					
1. Andhra Mechanical and Electrical Industries Ltd.	x	–			
2. Mysore Electrical Indus. Ltd.	–	–			
Cadbury Schweppes Ltd., UK					
1. Kissan Products Ltd.	x	x	a(ii)	United Brew	
2. Cadbury India Ltd.	x	–		–	
Chesebrough Pond's Inc., USA					
1. Ponds India Ltd.	x	–			
2. Indicarb Ltd.	–	–			
Ciba Geigy S.A. Switz.					
1. Ciba of India Ltd.	x	x	a(i)(ii)	ICI	
2. Suhrid Geigy Ltd.	x	x	a(ii)	Sarabhai	now amalgamated with Ambalal Sarabhai Enterprises
3. Suhrid Geigy Trading Ltd.	–	x	a(ii)	- do -	- do -
4. Cibaul Ltd.	–	x	a(ii)	K.Bhai L.Bhai	
Coats Patons Ltd., UK					
1. Madura Coats Ltd.	x	x	a(i)		
2. Needle Industries Ltd.	x	–			
Courtaulds Ltd., UK					
1. Courtaulds (I) Pvt. Ltd.	x	–		–	
2. Shalimar Paints Ltd.	x	–		–	through International Paints - a sub. of Courtaulds

Contd...

Multinational Corporation and Indian Affiliates	Whether FERA 1975	Whether Regd. under MRTPA as on 31.12.79	Sub-Section of MRTPA, if any	Inter-Connection if any - Name of GIUC	Remarks
(1)	(2)	(3)	(4)	(5)	(6)
Daimler-Benz, FRG					
1. Tata Engg. & Locomotive Co.Ltd.	-	x	a(i)		
2. Bajaj Tempo Ltd.	-	-			
Dunlop Holdings Ltd., UK					
1. Dunlop India Ltd.	x	x	a(i)(ii)/ b(i)(ii)	Dunlop	through Dunlop Ltd.
2. India Tyres Ltd.	-	-			
3. India Tyres & Rubber Co. P. Ltd.	x	x	a(ii)/b(ii)	Dunlop	
4. Wheels India Ltd.	x	x	a(ii)	TVS	
British American Tobacco (BAT), UK					
1. I.T.C. Ltd.	x	x	a(i)(ii)/ b(i)	ITC	
2. Vazir Sultan Tobacco Co.Ltd.	x	-			through Wiggins Geape Ltd. (sub.)
3. Tribeni Tissues Ltd. x	x	-			through Molins Ltd. (as associate)
4. Molins India Ltd.	x	-			
5. Indian Leaf Tobacco Development Corpn. Isle of Man Ltd.	x	x	a(i)(ii)	ITC	taken over by ITC Ltd.
Envirotech Corp., USA					
1. Eimco-K.C.P. Ltd.	x	-			
2. Eimco-Election Ltd.	-	x	a(ii)	V.Ramkrishna	

Contd...

Multinational Corporation and Indian Affiliates	Whether FERA 1975	Whether Regd. under MRTPA as on 31.12.79	Sub-Section of MRTPA, if any	Inter-Connection if any - Name of GIUC	Remarks
(1)	(2)	(3)	(4)	(5)	(6)
General Electric Co., UK					
1. Associated Electric Industries (Services) Ltd.	-	x	a(ii)	GEC	
2. F.F. Christein & Co. Ltd.	x	-			
3. English Electric Co. of India Ltd.	x	x	a(ii)	GEC	
4. General Electric Co. of India Ltd.	x	x	a(i)(ii)	GEC	
5. General Electric co. of India (Exports) Ltd.	-	x	a(i)	GEC	
6. Genelec Ltd.	-	x	a(ii)	GEC	
7. Electric Lamp Manufactures (India) (P) Ltd.	x	x	a(ii)	Philips)	See Note 4
8. Hind Lamps Ltd.	x	x	a(ii)	Bajaj)	
9. Indian Transformers Ltd.	-	x	a(ii)	GEC	
10. Avery India Ltd.	x	-			
General Electric, USA					
1. Elpro International Ltd.	x	-			
2. International General Electric Co. (India) Ltd.	x	-			
3. Mysore Lamp Works Ltd.	-	-			

Contd...

Multinational Corporation and Indian Affiliates	Whether FERA 1975	Whether Regd. under MRTPA as on 31.12.79	Sub-Section of MRTPA, if any	Inter-Connection if any - Name of GIUC	Remarks
(1)	(2)	(3)	(4)	(5)	(6)
Glaxo Holdings Ltd., UK	-	-			
1. Biological Evans Ltd.	-	-			
2. Glaxo Labs. India Ltd.	x	x	a(i)		
Great Lakes Carbon Corpn., USA					
1. Graphite India Ltd.	-	x	b(i)		
2. India Carbon Ltd.	-	x	b(i)		
Grind All Ltd., UK					
1. Clive Street Nominees P. Ltd.	x	-			
2. Cox & Kings (India) Ltd.	x	-			
3. Malcha Properties Ltd.	x	-			
Guest Keen & Nettlefolds, UK					
1. Mahindra Sintered Products	x	x	a(ii)	Mahindra&Mahindra	through Firth Clevland Ltd. (a subsidiary)
2. Simmonds Marshall Ltd.	x	-	x		- do -
3. R.H. Windsor (India) Ltd.	x	x	a(ii)/b (ii)		through GKW Engg. & Const. Services Ltd.
4. Shardlow India Ltd.	-	-			through GKW Forging Ltd.
5. Guest Keen williams Ltd.	x	x	a(i)(ii)/ b(i)	GKW	

Contd...

Multinational Corporation and Indian Affiliates	Whether FERA 1975	Whether Regd. under MRTPA as on 31.12.79	Sub-Section of MRTPA, if any	Inter-Connection if any - Name of GIUC	Remarks
(1)	(2)	(3)	(4)	(5)	(6)
6. Sankey Wheels Ltd.	-	x	a(ii)/b(i)	GKW	
7. GKW Overseas Trading Ltd.	x	x	a(ii)	GKW	
<u>Hoechst A.G., FRG</u>					
1. Hoechst Pharmaceuticals Ltd.	x	x	a(ii)	United Brew.	
2. Roussel Pharmaceuticals	-	x	a(ii)	United Brew.	
3. Hoechst Dyes and Chemicals	-	x	a(ii)	Mafatlal	
4. Polyolefins Ltd.	-	x	a(i)(ii)	- do -	
5. Colour Chem. Ltd.	-	x	a(i)(ii)	Khatau	See Note 3
6. British Paints Ltd.	x	x	a(ii)	Mafatlal	through British subsidiary Berger, Jenson & Nichlocan Ltd.
7. Friedrich Unde G.m.b.h. (Unde India Ltd.)	x	-			through Friedrich Unde G. m.b.h. (a subsidiary of Hoechst)
<u>Lead Industries Group Ltd., UK</u>					
1. Eyre Smelting Pvt. Ltd.	x	-			
2. Goodlass Nerolac Paints Ltd.	x	x			
3. Waldies Ltd.	x	x	b(i)		

Contd...

Multinational Corporation and Indian Affiliates	Whether FERA 1975	Whether Regd. under MRTPA as on 31.12.79	Sub-Section of MRTPA, if any	Inter-Connection if any - Name of GIUC	Remarks
(1)	(2)	(3)	(4)	(5)	(6)
Philips - Hollard					
1. Philips India (Peicco Electric)	x	x	a(i)(ii)/ b(i)	Philips	
2. Duphar Interfran Ltd.	x	–			
3. Electric Lamp Manufacturer (India) Ltd.	x	x	a(ii)	Philips)	See Note 4
4. Hind Lamps Ltd.	x	x	a(ii)	Bajal)	See Note 5
5. Polydor India Ltd.	x	–			
Pilkington Brothers Ltd., UK					
1. Hindustan Pilkington Glass Works Ltd.	x	x	a(ii)	N.A.	
2. Fibreglass Pilkington Ltd.	x	–			through fibreglass Ltd. (a subsidiary)
3. Somany Pilkington	–		a(ii)	Somant	
Rank Bush Murphy Ltd., USA					
1. Murphy India Ltd.	x	–			
2. Bush India Ltd.	x	–			
Hoffman La roche, Switzerland					
1. Roche Products (India) Ltd.	x	–			
2. Angle French Drug house (Eastern) Ltd.	x	–			

Contd...

Multinational Corporation and Indian Affiliates	Whether FERA 1975	Whether Regd. under MRTPA as on 31.12.79	Sub-Section of MRTPA, if any	Inter-Connection if any - Name of GIUC	Remarks
(1)	(2)	(3)	(4)	(5)	(6)
Sandoz AG, Switzerland					
1. Sandoz India Ltd.	x	–			
2. Wander Ltd.	–	–			
Siemens AG, FRG					
1. Siemens India Ltd.	x	x	a(i)		
2. Cable Corporation of India	–	x	a(ii)	Khatau	
3. Bharat Bijlee Ltd.	–	–			
4. Polydor India Ltd.	x	–			See Note 5
Spirax-Sarco Engineering Ltd.,UK					
1. Crompton Greaves Ltd.	x	x	a(ii)	Thaper	
2. Spirax Marshall Ltd.	x	–			
Tube Investments Ltd., UK					
1. Aluminium Hindustan (P) Ltd.	x	–			
2. India Foils Ltd.	x	–			through sub. Venesta Foils Ltd.
3. Sen Raleith Ltd.	–				nationalised

Contd...

Multinational Corporation and indian Affiliates	Whether FERA 1975	Whether Regd. under MRTPA as on 31.12.79	Sub-Section of MRTPA, if any	Inter-Connection if any - Name of GIUC	Remarks
(1)	(2)	(3)	(4)	(5)	(6)
4. T.I. & M Sales Ltd.	x	x	a(ii)	T.I.	
5. Tube Investment of India and its subs./Associates	x	x	a(ii)	T.I.	
<u>Unicorn Industries, UK</u>					
1. Carborundum Universal Ltd.	x	x	a(ii)	Murugapa Chettiar	
2. L.M. Van Moppes Diamond Tools India Ltd.	x	x	a(ii)	Simpson	
<u>Unilever Ltd., UK</u>					
1. Campbell & Co. (South India) Ltd	x	x	a(ii)	Hindustan Lever	
2. Hindustan Lever Ltd.	x	x	a(i)(ii)	- do -	
3. Indexport Ltd.	-	x	a(ii)	- do -	
4. Lintas Ltd.	-	-			
5. Lipton India Ltd.	x	x	a(ii)	- do -	
6. Brindavan Properties	x	x	a(ii)	- do -	
7. Birds Eye Food (I) P. Ltd.	-	-			Liquidated

Contd...

Multinational Corporation and Indian Affiliates	Whether FERA 1975	Whether Regd. under MRTPA as on 31.12.79	Sub-Section of MRTPA, if any	Inter-Connection if any - Name of GIUC	Remarks
(1)	(2)	(3)	(4)	(5)	(6)
<u>Union Carbide Corpn., USA</u>					
1. Union Carbide India Ltd.	x	x	a(i)(ii)/ b(i)		through Bakelite Xylointe Ltd.
2. Bakelite Hylam Ltd.	x	–			through Amchem Products Inc.
3. Arromore Ltd.	–	–			
<u>Warner Lambert Co., USA</u>					
1. Parke DavisLtd.	x	x			through Parks Davis (a subsidiary of Warner Lambert)
2. Warner Hindustan Ltd.	x	–			

SOURCE: Compiled from Dun & Bradstreet (1978) various volumes, Gray and Love ed. (1975), Stopford et. al.; et.; (1980), Indo-German Chamber of Commerce (1981), American Embassy in India (1978); Corporate Studies, IIPA (1979).

Notes to the Annexure:

1. (x) indicates that the undertaking had registered itself under the FERA, initially. It might have, however, diluted its foreign equity afterwards. (-) indicates that the undertaking has never been registered under the FERA.

2. (x) indicates that the undertaking is registered under the MRTP Act, as on 31.12.79. If the undertaking is registered under the MRTPA, the relevant sub-section and interconnection, if any, are shown in columns 4 and 5 respectively.

Contd...

3. Colour Chem. Ltd. has financial equity participation from two West German Firms viz. Bayer AG, and Hoechst, AG. The total German share is 32.8 per cent. Indian interconnection is with Khataus but the company was representing to the Government that it is not a part of Khatau group.

4. Electric Lamp Manufacturers (India) Pvt. Ltd. (ELMI) is a joint venture of 5 MNCs viz. General Electric Co. Ltd., Associated Electrical Industries (Rugby) Ltd., Crompton Parkinson Ltd., Associated Electricals (Woolwich) Ltd., and Midland Bank Executor & Trustee Co. on behalf of Philips, Holland. Share of Philips is 35.35 per cent. The technical management of ELMI rests with Philips. All shareholders get share of output of ELMI in the proportion of their shaareholding, for marketing. Recently there was a move by the first four shareholders to transfer their shareholdings to Philips (India) in order to comply with the FERA directive. Hind Lamps Ltd. is a joint venture of ELMI and Bajaj Electricals Ltd. This company again is under technical control of Philips. A significant proportion of the output (17.66 per cent) of Hind Lamps is also sold by Philips (India) Ltd. under their brand name. Till recently the Dutch Chairman and Managing Director of Philips (India) Ltd. was also the chairman of ELMI and was on the Board of Directors of Hind Lamps Ltd., Polydor of India Ltd. and Duphar Interfran Ltd. See for details, the Monopolies and Restrictive Trade Practices Commission (1975).

5. Polydor India ltd., is affiliated to Poly Gram G.m.b.h. which is a joint venture of Siemens A.G. and Philips, Holland. See Note 4 also.

TABLE 3

A List of 46 Subsidiaries each Having a Turnover of More Than Rs. 10 Crores

1. ATLAS COPCO INDIA LTD.*
2. ASBESTOS CEMENT LTD.*
3. ALKALI AND CHEMICAL CORPORATION OF INDIA.*
4. ASHOK LEYLAND LIMITED.*
5. ASSOCIATED BEARING COMPANY LTD.*
6. BROOKE BOND INDIA LTD.*
7. BATA INDIA LTD.*
8. BRITANNIA INDUSTRIES LTD.*
9. BAYER INDIA LTD.
10. BOOTS.*
11. CADBURY.*
12. CYNAMID.
13. COLGATE PALMOLIVE.*
14. CHLORIDE.*
15. CHMEICALS AND FIBRES.*
16. DUNLOP.*
17. ENGLISH ELECTRIC COMPANY.
18. EID PARRY.*
19. FOOD SPECIALITIES.*
20. GOODLASS NEROLAC PAINTS.*
21. GUEST KEEN WILLIAMS.*
22. GENERAL ELECTRIC COMPANY.
23. GOODYEAR
24. GLAXO.*
25. HINDUSTAN LEVER.*

Contd...

26. HINLUTAN MILK FOOD MANUFACTURERS LTD.*

27. HINDUSTAN FERODO LTD.*

28. H.M.V. GRAMOPHONE COMPANY.*

29. INDIAN EXPLOSIVES LTD.*

30. INDIAN ALUMINIUM.*

31. INDIA OXYGEN.*

32. INDIA TYRE AND TUBE COMPANY.

33. METAL BOX.*

34. MERCK SHARP AND DHOME.

35. OTIS ELEVATOR COMPANY.

36. PIECO ELECTRONICS

37. PFIZER

38. RECKIT AND COLEMAN.*

39. SANDOZ.

40. SANDVIK

41. SHALIMAR PAINTS.

42. SIEMEN.*

43. TUBE INVESTMENTS.

44. TRIBENI TISSUES.*

45. UNION CARBIDE.*

46. WIMCO.

SOURCE: S.K. Goyal, Monopoly Capital and Public Policy, New Delhi-1979. Table V.10, pp.60-61.

NOTE: Asterisk indicates the companies that are members of the ASSOCHAM.

TABLE 4

List of Companies with Restrictive Clauses in their Articles of Association

S.No.	Name of the Company	Foreign Equity Participation
(1)	(2)	(3)
1	Guest Keen Williams	58.19 %
2	Pieco Electronics and Electricals (1979)	40.00 %
3	CWS (INDIA) Ltd.	74.00 %
4	Assam Frontier Tea Ltd.	74.00 %
5	Greaves Lombardini Ltd.	12.62 %
6	Reckitt and Coleman India Ltd.	39.90 %
7	Abbott Laboratories India Ltd.	25.00 %
8	Tube Investments of India	39.92 %
9	Associated Bearing Company	51.00 %
10	H.M.V. Gramaphone Company	39.84 %
11	Pfizer	60.00 %
12	Swiss Jewels (India) Ltd.	30.00 %
13	Parke Davis (India) Ltd.	57.00 %
14	Nagarjuna Signode	36.00 %
15	Modi Alkalies and Chemicals	20.00%
16	Bakelite Hylam Ltd.	40.00 %
17	Davy Ashmore India Ltd.	40.00 %
18	Stormac India Ltd.	40.00 %
19	Indicarb Ltd.	20.28 %
20	Axles India Ltd.	33.00 %
21	Chemicals and Fibres	51.00 %
22	Indian Aluminium Company	55.27 %
23	Siemens	51.00 %
24	Union Carbide	50.90 %
25	WIMCO	39.50 %
26	Shalimar Paints	40.00 %
27	Atlas Copco	39.87 %
28	HICO Products	N.A.

SOURCE : Prospectuses of the respective companies

TABLE 5

Name of Directors Who Held more than One Directorships between 1977-82

S. No.	Name of the Company	Name of Director	Total No. of Directorships held between 1977-82
(1)	(2)	(3)	(4)
1.	ATLAS COPCO INDIA LTD.*	Akbar Hydari	15
		DS Mulla	24
2.	ASBESTOS CEMENT LTD.	N Dendakar	4
		N. Venkataraman	2
		DC Shroff	8
		PK Mistry	3
		VN Kamte	2
3.	ALKALI AND CHEMICAL CORPN OF INDIA	S. Verma	2
		AMM Arunachalam	24
		Sharanbir Singh	2
		ALA Mudaliar	10
		S Ganguly	3
		BN Khosla	10
4.	ASHOK LEYLAND LIMITED	RJ Sahney	4
		WK Maclver	5
		SVS Raghvan	2
		R. Saran	9
		S. Kumarasundram	5
		RA Fryars	2
5.	ASSOCIATED BEARING COMPNAY LIMITED	G. Bergkvist	12
		NM Wagle	23
		A Carlen	3
		NA Palkiwala	11
		FA Mehta	16
		UL Jembsby	2
		A. Hydari	15
		Krishan Chand	2
6.	BROOKE BOND INDIA LTD.	H.B. Dhondy	8
		K.K. Basu	21
		K. Venkatachalam	4
		C.S. Samuel	3
		UC Mahatab	17
		DC Kothari	18
		BP Poddar	21
		RS Mamak	3
7.	BATA INDIA LTD.	KK Dutt	23
		PK Nanda	4
		MM Sabharwal	5

Contd...

S. No.	Name of the Company	Name of Director	Total No. of Directorships held between 1977-82
(1)	(2)	(3)	(4)
8.	BRITANNIA INDUSTRIES LTD.	MM Sabharwal	5
9.	BAYER INDIA LTD.	SN Desai	21
		FA Mehta	16
		J Harivallabhdas	20
		BM Ghia	21
10.	BOOTS	JN Guzder	13
		NS Phaterphekar	22
11.	CADBURY	CY Pal	2
		HC Sarin	6
		P Pandhi	6
		V Mallaya	2
		AK Bahl	3
		ML Apte	30
12.	CYNAMID	SK Lalbhai	10
		RN Ratnam	2
		R Setlur	18
13.	COLGATE PALMOLIVE	NS Phaterphekar	22
		R Setlur	18
		JK Setna	4
14.	CHLORIDE	J. Sengupta	8
		A Sen	5
		BP Ray	25
		ALA Mudaliar	10
		Bhasker Mitter	19
		A Dasgupta	2
		DG Cochraine	2
		N. Barat	3
		SK Basu	2
15.	CHEMICALS AND FIBRES	ALA Mudaliar	10
		Alan W. Hamer	5
		Brian William Ritchie	3
		NN Wadia	24
		Gordon James Fairbrown Mackay	2
		Akbar Hydari	15
		PK Mukerjee	4

Contd...

S. No.	Name of the Company	Name of Director	Total No. of Directorships held between 1977-82
(1)	(2)	(3)	(4)
16.	DUNLOP	S.G. Swaminadham	4
		Bhasker Mitter	19
		RM Bhandari	3
		MM Sabharwal	5
		RK Palit	2
		VP Pandit	4
		RS Tarneja	4
		PL Vahi	2
		K Mahindra	26
17.	ENGLISH ELECTRIC COMPANY	RS Manak	3
		PK Gupta	5
		DC Kothari	18
		Dharamvira	7
18.	EID PARRY	VS Tyagaraj Mudaliar	15
		JS Vaidyanathan	12
		SLM Sinha	3
		RN Ratnam	2
		BP Ray	25
		S Rangarajan	9
		R Venkataswamy Naidu	15
		Ashok Goenka	8
		NW Gurjar	11
		NK John	8
		NR Rao	24
19.	FOOD SPECIALITIES	Ravinder Narian	13
20.	GOODLASS NEROLAC PAINTS	NS Phaterphekar	22
		DJ Madan	18
		UK Mallick	2
21.	GUEST KEEN WILLIAMS	KB Lall	4
		S Ray	3
		V Sesha Ayyar	2
		L Hodges	2
		JJ Irani	4
		T. Mathew	4
		ALA Mudaliar	10
		S. Nadkarni	4
22.	GENERAL ELECTRIC COMPANY	BP Poddar	21
		R Law	5
		Dharamvira	7
		RS Mamak	3
23.	GOODYEAR	V Narayanan	2

Contd...

S. No.	Name of the Company	Name of Director	Total No. of Directorships held between 1977-82
(1)	(2)	(3)	(4)
24.	GLAXO	S Bhoothalingam	6
		H Dhanrajgir	3
		NM Wagle	23
		JS Raj	21
25.	HINDUSTAN LEVER	JS Raj	21
		T. Thomas	2
26.	HINDUSTAN MILK FOOD MANUFACTURERS LTD.	Maj. Gen. MN Batra	8
27.	HINDUSTAN FERODO LTD.	P Mathew	6
		PK Mistry	3
		VN Kamte	2
28.	H.M.V. GRAMAPHONE COMPANY	BP Ray	25
		RN Sen	3
		VP Aghoram	2
29.	INDIAN EXPLOSIVES LTD.	PK Mukerjee	4
		A.L.A. Mudaliar	10
		S Ganguly	3
		OP Berry	4
		AK bose	9
		SS Baijal	2
		S Verma	2
30.	INDIAN ALUMINIUM	John H Hale	10
		UC Mahatab	17
		CW Birkett	3
		K Mahindra	26
		Sam Manekshaw	5
		SK Mullick	12
		HT Parekh	7
		EA Trigg	10
		RK Palit	2
31.	INDIA OXYGEN	DC Kothari	18
		KD Moore	2
		RH Mody	6
		Dhandekar	4
		Bhasker Mitter	19
		Juliah Scott	4
32.	INDIA TYPE AND TUBE COMPANY	RN Basu	2
		NS Phaterphekar	22

Contd...

S. No.	Name of the Company	Name of Director	Total No. of Directorships held between 1977-82
(1)	(2)	(3)	(4)
33.	METAL BOX	PK Nanda	4
		Bhasker Mitter	19
		K Mahindra	26
		Akbar Hydari	15
		UC Mahtab	17
34.	MERCK SHARP AND DHOME	AH Tobacowalla	4
		NS Phaterphekar	22
35.	OTIS ELEVATOR COMPANY	RK Palit	2
		VP Pandit	4
		RS Tarneja	4
		PL Vahi	2
		K Mahindra	26
36.	PIECO ELECTRONICS	RK Arora	4
		Gerard De Ruiter	2
		Mclaine Pont	2
		NS Phaterphekar	22
		SG Swaminadhan	4
37.	PFIZER	RA Shah	24
		CC Shah	2
		Henry Alexander Mckinnell	12
		David Sutherland Reid	3
		KF Bunshah	2
38.	RECKIT AND COLEMAN	FR Bhesania	6
		Brig RB Chopra	2
		NR Choudhary	3
39.	SANDOZ	S Ranganathan	9
		DS Patel	4
		SK Bhattacharya	4
		JN Bannerjee	3
40.	SANDVIK	NS Phaterphekar	22
		SY Rege	18
		SH Talavlikar	2
41.	SHALIMAR PAINTS	PB Senguapta	2
42.	SIEMEN	FA Mehta	16
		RF Braun	2
		SK Thackersey	5
		HEH Langer	2
		CM Khatau	12
		HN Kapadia	9
		NN Kapadia	19

Contd...

S. No.	Name of the Company	Name of Director	Total No. of Directorships held between 1977-82
(1)	(2)	(3)	(4)
43.	TUBE INVESTMENTS	MV Arunachalam	16
		Brain Smith Kellet	5
		AMM Arunachalam	24
		S Jaganathan	7
		TE Barnsley	12
		JS Raj	20
44.	TRIBENI TISSUES	S. Bhoothalingam	6
45.	UNION CARBIDE	Bhasker Mitter	19
		JM Rehfield	4
		K Mahindra	26
		CP Modi	2
		JS Raj	21
		AMM Arunachalam	24
46.	WIMCO	HC Asher	22
		NM Wagle	23
		Akbar Hydari	15
		K Mahindra	26
		Brig. Shamsher Singh	6
		Kamaljit Singh	13
		MV Hate	2
		Grannenberg	7

SOURCE: Directory of Directors, Corporate Studies Group, IIPA, New Delhi.

TABLE 6

Names of Directors and Their Links with Financial Institutions

S. No.	Name of Director	Directorships held in foreign companies	Association with Financial institutions etc.
	(1)	(2)	(3)
1.	AMM Arunachalam	Union Carbide, Ashok Leyland, Alkali and Chemical Corporation of India, Tube Investments	Tamil Nadu Industrial Investment Corporation, Bank of Baroda; ICICI and R.B.I.
2.	MV Arunachalam	Tube Investment of India	R.B.I.
3.	Maj.Gen. MN Batra	HMM	Oriental Bank of Commerce
4.	SS Baijal	IEL	ICICI
5.	Ashok Goenka	EID Parry	GIC and United India Fire and General Insurance
6.	Akbar Hydari	Metal Box: Associated Bearing; WIMCO Crescent Dyes & Chemicals; Atlas Copco and Chemicals and Fibres.	RBI, Oriental Fire and General Insurance
7.	J. Harivallabhdas	Bayer	Central Bank of India
8.	MV Hate		Director: Bank of India
9.	B.N. Khosla	Alkali and Chemical Corporation & EID Parry	Member: Northern Regional Committee of IDBI
10.	S. Kumarasundaram	Ashok Leyland	ICICI, Member, National Institute Public Financial Policy.
11.	U.C. Mahatab	Brooke Bond; Indian Aluminium	Chairman; Chartered Bank (Local Advisory Board) Allahabad Bank.
12.	RH Mody	India Oxygen	Bihar Industrial Investment Corporation
13.	Bhasker Mitter	Dunlop; Union Carbide; India Oxygen; Alkali Chemical and Metal Box	ICICI, West Bengal Industrial Development Corporation.

Contd...

S. No.	Name of Director	Directorships held in foreign companies	Association with Financial institutions etc.
	(1)	(2)	(3)
14.	Keshub Mahindra	Otis Elevator; Union Carbide Indian Aluminium; Metal Box & WIMCO	ICICI.
15.	DJ Madan	Goodlass Nerolac	Member: Advisory Board of CITI Bank.
16.	BP Poddar	GEC, EEC	Chairman; United Commercial Bank of India.
17.	Prem Pandhi	Cadbury	V. Chairman of Local Advisory Board of RBI.
18.	JS Raj	Hindustan Lever & Union Carbide	IDBI, Industrial Investment Trust of India.
19.	S. Rangarajan	EID Parry	IDBI
20.	NR Rao	EID Parry	Mg. Dir. State Bank of India.
21.	S. Ranganathan	Sandoz	ICICI
22.	RN Sen	Gramophone Co. of India	United Commercial Bank of India.
23.	HC Sarin	Cadbury	Chartered Bank
24.	Mrs. Raksha Saran	Ashok Leyland	LIC., Punjab National Bank
25.	M.N. Wagle	Associated Bearing Company WIMCO & GLAXO	IDBI, ICICI & State Industrial and Investment Corporation of India.

SOURCE: Directory of Directors, Corporate Studies Group, I.I.P.A., New Delhi.

TABLE 7

Name of Directors of Foreign Companies and their Association with ASSOCHAM

Sl. No.	Name of Director	Name of Foreign Co./Cos.	Membership of ASSOCHAM
	(1)	(2)	(3)
1.	V.P. Arya	Union Carbide	Expert Committee on Company Law ASSOCHAM 1980
2.	NRN Ayyar	E.E.C.	Expert Committee on Company Law ASSOCHAM 1980
3.	ML Apte	Cadbury	Member Managing Committee ASSOCHAM, 1978
4.	SS Baijal	I.E.L.	Chairman, Expert Committee of Industrial Pollution ASSOCHAM, 1976
5.	DK Basu	Brooke Bond E.E.C.	Member, Expert Committee on Company Law, ASSOCHAM 1980
6.	NS Bedi	Dunlop	Member, Expert Committee on Transport, ASSOCHAM 1980
7.	NG Choudhari	Tribeni Tissues	Member, expert Committee on Company Law, ASSOCHAM, 1980.
8.	TC Chopra	Hindustan Lever	Member, expert committee on 1980 Economic Affairs, ASSOCHAM
9.	NC Choudhauri	Britannia	Member, Managing Committee ASSOCHAM 1981-82.
10.	S.Ganguly	Alkali & Chemical Corporation I.E.L.	Member, expert committee on Industry and Rural Development ASSOCHAM, 1980.
11.	AS Ganguly	Hindustan Lever	Member, Mg. Committee ASSOCHAM, 1981-82, Member Expert Committee on Foreign Investment ASSOCHAM, 1980.
12.	DC Kothari	Brooke Bond E.E.C.	Member, Advisory Council, ASSOCHAM, 1972-73.

Contd...

Sl. No.	Name of Director (1)	Name of Foreign Co./Cos. (2)	Membership of ASSOCHAM (3)
13.	JS Khambatta	Glaxo	Member, Managing Committee, ASSOCHAM 1981-82, Member, expert committee on foreign investment, ASSOCHAM 1977-80.
14.	HEH Langer	Siemens	Member, Managing Committee ASSOCHAM, 1981-82.
15.	ALA Mudaliar	Alkali & Chemical Corporation of India I.E.L. & Chloride.	Member, Managing Committee ASSOCHAM 1977.
16.	RH Mody	India Oxygen	Member, Managing Committee ASSOCHAM 1977.
17.	V Narayanan	Good Year	Member, expert committee on Economic Affairs ASSOCHAM, 1980.
18.	Prem Pandhi	Cadbury	Deputy President ASSOCHAM 1972 Member, expert committee on Foreign Investment ASSOCHAM 1975-77, and 1980.
19.	NA Palkiwala	Associated Bearing	Member Advisory Committee ASSOCHAM 1972-73. Dy. President, ASSOCHAM, 1972
20.	RN Ratnam	EID Parry Cynamid	Member Expert Committee on Company Law, ASSOCHAM, 1980.
21.	S. Ray	Guest Keen Williams	Member expert committee on Company Law, ASSOCHAM, 1980.
22.	MM Sabharwal	Dunlop, Britannia & BATA	Member Expert Committee on Economic Affairs, ASSOCHAM Member Expert Committee on Foreign Investment.
23.	RA Shah	Pfizer	Member Expert Committee on Company Law, ASSOCHAM 1978.
24.	A Sen	Chloride	Member Expert Committee on Economic Affairs, Committee on Direct Taxes ASSOCHAM 1980. Member Advisory Council, 1972-73, ASSOCHAM.

Sl. No.	Name of Director	Name of Foreign Co./Cos.	Membership of ASSOCHAM
	(1)	(2)	(3)
25.	Kamaljit Singh	WIMCO	Member, Managing Committee ASSOCHAM, 1980.
26.	TD Sinha	Indian Aluminium	Member Expert Committee on Economic Affairs, ASSOCHAM 1980.
27.	KV Shanbhogue	Alkali Chemical Corpn.	Member Expert Committee on Company Law, ASSOCHAM, 1980.
28.	J Sengupta	Chloride	Member, Managing Committee ASSOCHAM 1981-82; Chairman Expert Committee on Foreign Investment, ASSOCHAM, 1980.
29.	T. Thomas	Hindustan Lever	Member, Managing Committee ASSOCHAM 1977.
30.	SH Talavlikar	Sandvik Asia	Member Expert Committee on Direct Taxes, ASSOCHAM, 1980.
31.	MV Wagle	Tube Investments of India	Member Expert Committee on Direct Taxes, ASSOCHAM, 1980.

SOURCE: ASSOCHAM Annual Reports

TABLE 8

Foreigners as Directors of Foreign Controlled Companies

Sl. No.	Name of the Company	Name of Director	Year
	(1)	(2)	(3)
1.	Atlas Copco	J.E. Ahlin (Mg. Dir) Nils Bo. Gyllenberg R.W. Kneeshaw Einer Rudolf E.R. Liwendahl	1979
2.	Asbestos Cement	R.D.N. Somerville	1978
3.	Alkali and Chemical	---	-
4.	Ashok Leyland	W.K. MacIver R.J. Hancock R.A. Fryars	1980
5.	Associated Bearing	G. Bergkvist A. Carlen U.L. Jemsby	1979
6.	Brooke Bond	J.C. Brock J.D. Levallian E.J. Paul	1979
7.	Bata India	P.T.J. Knaapen. D.M. Marchant (Mg.Dir) J.P. Wleugel	1980
8.	Britannia Industries	R.J. Palmer K.J. Scott	1979-80
9.	Bayer India	Mr. H. Lange K.D. Forstmann Dr. Rudolf Kopf. Dr. K.H. Risse Dr. D. Rosahl G. Wallbrecht (Mg.Dir)	1981
10.	Boots	Borje Skog. (Mg.Dir) Dr. E.E. Cliffe	1981
11.	Cadbury	B.J. Cork C.K. Finlay (Mg.Dir) J.P. Gregory (Alt.-Dir.) D.S. Wood	1978

Contd...

Sl. No.	Name of the Company	Name of Director	Year
	(1)	(2)	(3)
12.	Cynamid	R.H. Henel G.J. Penfield J.H. Schriever (co-ex)	1980
13.	Colgate Palmolive	F.O. Cowles. (co-ex) BsHarHalE.(Senior)(co-ex)	1979
14.	Chloride	D.G. Cochrane (Alt.-Dir) K.R.T. Hodgson (Chmn.) W.H. Wantstall	1979
15.	Chemicals and Fibres	Robert C. Paul Donald Buck Hindson	1977-78
16.	Dunlop	K.J. Johnson A.W.G. MacIntyre (Mg.Dir) L.R. Gibbins	1980
17.	English Electirc Company	-	-
18.	EID Parry	Dr. Easo John (Chairma & Mg. Director)	1979
19.	Food Specialities	H.A. Trueb. (Chairman & Mag. Director)	1980
20.	Goodlass Nerolac Paints	C.A. Kelly A. Scott	1978
21.	Guest Keen Williams	John Anthony Beaumont Leonard Hodges Roy Ernest James Roberts	1978
22.	General Electric Company	-	-
23.	Goodyear	I. Thomsen J.E. Purcell G.H. Probin J.E. Macdonald J.R. Hicks R.W. Graham	1978
24.	Glaxo	C.B. Newcomb Dr. T. Walker	1981
25.	Hindustan Lever	J.P. Lusty C.M. Smith (Vice Chairman)	

Contd...

Sl. No.	Name of the Company	Name of Director	Year
	(1)	(2)	(3)
26.	Hindustan Milk Food Manufactures Ltd.	S.T. Scarff (Mg. Dir.) D.S. Boyle V.J. Steel	-
27.	Hindustan Ferodo	B.G. Hill (Alt. Dir.)	1977
28.	H.M.V. Gramophone Company	K.A.C. East P.A.D. Duffell M.S. Wells	1979
29.	Indian Explosives	-	-
30.	Indian Aluminium	C.W. Birkett J.H. Hale (Alt. Dir) A.A. Hodgson E.A. Trigg.	1979
31.	Indian Oxygen	Robert Christopher Hesketh Jones David William Norman Pitts	1978
32.	India Tyre and Tube Company	Kenneth Douglas Noore (Chmn & Mg. Dir.) L.R.G. bbons (chmn).	1981
33.	Metal Box	J.G. Gilbertson I.R.M. Willis	1980
34.	Merck Sharp and Dhome	Huskel Ekaireb (Chairman) C.J. Mcalpine	1978-79
35.	Otis Elevator Company	W. Dannenberg H. Faure A. Mackenzie R.P. Whelan	1979-80
36.	Pieco Electronics	Willem Maclaine Pont (Chmn + Mg. Dir) G.DE. Ruiter (Alt. Dir)	1980
37.	Pfizer	R.A. Baker K.F. Bunshah David Sutherland Reid Henry Alexander Mckinnell	1982
38.	Reckit and Coleman	G.R. Fryers J.ST. Lawrence J.C.L. De Mel.	1979

Contd...

Sl. No.	Name of the Company	Name of Director	Year
	(1)	(2)	(3)
39.	Sandoz	Dr. B. Berde Dr. R.A. Boissonnas Dr. M. Moret Dr. U. Oppikofer W.A.Staub. (Dep.M.D.) B.Stalder Dr. H. Winkler.	1980
40.	Sandvik	Jan-Chister Carlen Lennart Sundin Borje Skog (Mg. Dir)	1980
41.	Shalimar Paints	E.W. Osmond C.P. Phillipose R.M. Woodhouse	1978
42.	Siemen	D.K. Briese (Att. Dir) G.K. Kadegge Dr. Horst E.H.Langer (Indo german c.c.81) Dr. Reinhold F. Braun (President, Indo-German C.C.) Mg. Committee, ASSOCHAM	1981
43.	Tube Investments	R.M. Bagnall T.E. Barnsley Sir Brian Smith Kellett	1978
44.	Tribeni Tissues	R.A. Traill	1978
45.	Union Carbide	J.M. Rehfield J.B. Law R.E. Brindley M.G. Skelsey	1981
46.	WIMCO	Nills E. Granberg Bernt Magnusson Hans Larsson	1981-82

SOURCE: PROSPECTUSES AND ANNUAL REPORTS OF THE RESPECTIVE COMPANIES AND THE DIRECTORY OF DIRECTORS

TABLE 9

An Industry-wise Classification of Directors

S. No.	Name of Director	Commerce Transport & Other Services	Processing Manufacture Metals & Food-stuffs Textile & Leather	Processing & Manufacture Metals & Chemicals	Basic Industrial Chemicals & Fertilizers	Manufacture of Chemical Products	Construction and Utilities	Processing & Manu-facture	Mining & Quarrying	Agriculture & Plantation
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1.	U.C. Mahtab	5	2	4						3
2.	R. Venkataswamy Naidu	2	4	2	1		1			
3.	N.W. Gurjar	1		7				1		
4.	N.R. Rao	1		3	6	1	3		1	
5.	B.P. Ray	6	1	7			1			3
6.	K.S. Vaidyanathan	1	2	4						2
7.	V.S. Tyagaraja Mudaliar	2		2	2			1		
8.	N.A. Palkhivala	2		3						
9.	Berguist			10						
10.	S.K. Lalbhai		3		2	2				
11.	S.Y. Rege	3		3		2	1		1	
12.	R. Setlur	1		3	3	5				
13.	Ravinder Narain	1	3	4			1			
14.	N.M. Wagle	2	2	3	2	1	1	2		

Contd...

S. No.	Name of Director	Commerce Transport & Other Services	Processing Manufacture Metals & Food-stuffs Textile & Leather	Processing & Manufacture Metals & Chemicals	Basic Industrial Chemicals & Fertilizers	Manufacture of Chemical Products	Construction and Utilities	Processing & Manu-facture	Mining & Quarrying	Agriculture & Plantation
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
15.	D.J. Madan	3	3	2		1		3		
16.	M.L. Apte	6	8	4	2	1		3	1	1
17.	D.S. Mul	1		15		2				
18.	Hemraj Casher	2	1	6	1	2				
19.	B.P. Poddar	5	1	1	1	1		4	1	5
20.	A.M.M. Arunachalam	1		6	3	2		4		
21.	N.S. Phaterphekar		2	4	2	4		3		
22.	Akbar Hydari	1	1	5	2			1	2	
23.	P.K. Dutt	3	4	6		2	1	1	3	
24.	D.K. Basu		3	3				3	1	6
25.	D.C. Kothari	2	3	3	3	1	1	1		2
26.	L.N. Khosla	1	1	3	1	1				
27.	J.S. Raj	4	2	4	1	3	2	1		
28.	Kamaljit Singh	1	1	1	2			3		1
29.	A.L. Mudaliar	2	1		3					
30.	J.H. Hale				10					
31.	E.A. Trigg				10					

Contd...

S. No. Name of Director	Commerce Transport & Other Services	Processing Manufacture Metals & Food-stuffs Textile & Leather	Processing & Manufacture Metals & Chemicals	Basic Industrial Chemicals & Fertilizers	Manufacture of Chemical Products	Construction and Utilities	Processing & Manu-facture	Mining & Quarrying	Agriculture & Plantation
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
32. S.K. Mullick	4	2	2				3		
33. Bhasker Mitter	1	1	8	1		1	3		
34. H.N. Kapadia				8		2			
35. C.M. [illegible]	2	2	3	1	1		2		
36. F.A. Mehta	3	1	2		4		1		
37. N.N. Kapadia	4		9	4	3				
38. K. Mahindra	3	2	10	3	1		2		
39. A. Barnsley	12		5		1				
40. M.V. Arunachalam	2	2		1			2		
41. B.M. Ghia	4	4	2	3	3	1	1		
42. J. Harivallabhdas	1	4		8	2		1		
43. S.N. Desai	4	5		8	2		1		
44. D. C. Shroff	1	1	3				3		

TABLE 10

Persons in Sample who Held More than Ten Directorships

S. No.	Name of Director	Past Association with the State	No. of FERA Cos.	Total No. Directorships held	Industrial House No.	Names	Financial Institution	Offices held in ASSOCHAM or other Chambers of Commerce
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1.	N.M. Wadle	Retd. ICS served in the districts of Gujarat 1938-42, and in the Secretariat at Bombay 1942-47	8	23	6	1 Wallace 1 Nouroyee Wadia 3 Thapar 2 Tata 1 Mafatlal	Dir: Industrial Devlp. Bank of India (IDBI) & Industrial and Investment Corpn. of India, Chmn: Chartered Bank Local Advisory Board of India & ICICI State Board.	Member, Mg. Committee ASSOCHAM 1972-73 Pres: ASSOCHAM, 1968
2.	D.K. Basu.	-	6	2	10	1 K.P. Goenka 1 GEC 1 Shawallace 2 Jardine Henderson 1 Brooke Bond 5 Macneill Magor 1 Thapar 1 Bangur	-	Member: Expert Committee on Company Law, ASSOCHAM 1977-78
3.	U.C. Mahatab		2	7	6	3 Bangur 2 Brooke Bond 2. Andrew Yule 1. G. Arbutnot 1. Birla 1. Mcnlmagor	Dir: Allahabad Bank	

Contd...

S. No.	Name of Director	Past Association with the State	No. of FERA Cos.	Total No. Directorships held	Industrial House No.	Industrial House Names	Financial Institution	Offices held in ASSOCHAM or other Chambers of Commerce
(1)		(2)	(3)	(4)	(5)	(6)	(7)	(8)
4.	D.C. Kothari	Sheriff of Madras,	3	18	7	3 Kothari D.C. 1 Brooke Bond. 2 Shriram 1 Tata 1 EEC 1 R.K. Amin (TIPIC) 1 Naidu G.V.		President FICCI 1970-71 President. Hindustan Chamber of Commerce President Confederation of Asian Chambers of Commerce & Industry.
5.	B.P. Poddar		5	2	5	6 Shawuallace 3 GEC 1 Birla 1 Thapar 1 Goenka K.P. 1 P. Sector.	Chm. United Comercial Bank of India.	-
6.	Amm. Arunachalam		8	24	8	1 Ashok Leyand 3 Murugappa 1 ICI 1 Union Carbide 2 Kothari 1 J.K. 1 Kannoria R.K. 1 Oil India	-	-
7.	N.S. Bhatenherkar		6	22	9	1 Finlay 2 Tata 1 Philips 1 Birla 2 Chowgule 1 Nsjwadia 1 Sarabhai 1 Dunlop 1 Larsen & Toubro)		-

Contd.

S. No.	Name of Director	Past Association with the State	No. of FERA Cos.	Total No. Directorships held	Industrial House No.	Names	Financial Institution	Offices held in ASSOCHAM or other Chambers of Commerce
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
8.	Akbar Hydari		6	15	6	2 ICI 2 Swedish 1 Mahindra 4 Tata 1 Wallace 1 Central Pulp	RBI, Member oriental Fire & General Insurance	President ASSOCHAM 1971-72
9.	K.K. Dutta		3	23	5	1 Birdhielgrs 1 Thapar 1 Finlay (TIPIC) 1 Mcnlbarry IIPIC 1 Mcnl Magor		-
10.	H.C. Ash r		6	22	4	1 Salgaocar 1 Swedish Match 2 Birla 1 Nsjwadia 4 Subsidiaries		-
11.	B.N. Khosla		3	10		1 Parry 1 Simpson 2 ICI	Member, Northern Regional Committee, IDBI	-
12.	Kamaljit Singh		2	12	4	1 ACC (MRTP) 1 Central Pulp 3 Swedish Match 2 LU/LIC/DM 1 Rallis (2 cos incorporated abroad)		Member, Managing Committee ASSOCHAM 1980.

Contd...

S. No. Name of Director	Past Association with the State	No. of FERA Cos.	Total No. Directorships held	Industrial House No.	Names	Financial Institution	Offices held in ASSOCHAM or other Chambers of Commerce
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
13. Jares Saruel Raj	Served in the Ministry of Food & Agriculture 1945-53 Additional Director, Stock Exchange Ministry Finace 1959-60;	3	20	6	1 Murgappa 2 Lalbhai K 1 Wallace 1 Kothari 2 Tata 1 Union Carbide 1 Hindlever 1 Mafatlal	IDBI Indl. Investment of India	Vice President International Finace Corpn Washington 1960 on IMF. Washington as division Chief.
14. ALA Mudaliar	Member, Export Import Advisory Committee. (Eastern zoe) Govt. of India. (2) Industrial Liaison Board, govt of West Bengal		10	1	6 ICI		Membmer Mg Committee Assocham, Alternate President ASSOCHAM. Member Bengal Chamber of commerce & Industry.
15. John H Hale the rest 9		1	10	1	1 ILU/LIC/DU and are all branches /affiliates of the parent co, including the parent Co.		
16. S.K. Mullick	-	3	12		1 Bangur 3 Goenka KP. 1 Indrasingh 3 Martin Burn		-
17. EA Trigg.		1	10	1	ILU/LIC/DU All Companies are Affiliates of the Parent Company		-

Contd...

S. No.	Name of Director	Past Association with the State	No. of FERA Cos.	Total No. Director-ships held	Industrial House No.	Names	Financial Institution	Offices held in ASSOCHAM or other Chambers of Commerce
(1)		(2)	(3)	(4)	(5)	(6)	(7)	(8)
18.	F.A. Mehta		4	16	4	5 Tata 1 Mafatlal 1 Rallis 1 Khatau	Dir., IDBI Chan., Local Advisory Board of the Banque Nationale De Paris Member Governing Body of the Indian Industrial Centre.	President Indo German Chamber of Commerce
19.	CM Khatau		3	12	5	1 Ruia 1 LU/LIC/DU 4 Khatau 1 S.P. Jain 1 Dharamsi Morarji 1 Thackersey.		-
20.	H.N. Kapadia		2	10	5	1 Khatau 1 Subsidiary		
21.	N.N. Kapadia		1	19	2	1 Seshasayee 1 Khatau 1 Public Sector		
22.	Bhasker Mitter		9	19	10	1 ICI 2 Chloride 1 Dunlop 1 Bangur 1 Mahindra 1 Metal Box 1 Oil India 1 Union Carbide 1 Birla 1 Tata 2 Public Sector	West Bengal Industrial Development Corpn, Ltd. ICICI.	President ASSOCHAM 1971-72

Contd...

S. No. Name of Director	Past Association with the State	No. of FERA Cos.	Total No. Directorships held	Industrial House No.	Industrial House Names	Financial Institution	Offices held in ASSOCHAM or other Chambers of Commerce
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
23. Keshub Mahindra Nsjwa..a ICICI		6	26	10	1 4 Mahindra 1 Union Carnbide 3 LU/LIC/DU 3 Tata 1 Swedish Match 1 Wallace 2 Thapar 1 Metal Box 1 Mafatlal 1 Lalbhai		President, ASSOCHAM 1970-71
24. R A Shah		6	24	6	1 Nsjwadia 5 LU/LIC/DU 1 Birla 1 Khatau 1 Modi 1 Mafatlal 3 Sarabhai		Member, ASSOCHAM
25. S.N. Desai		2	21	7	4 Nsjwadia 1 Naidu GV. 1 Somaiya 1 Palonji 1 Finlay 1 DharamsiMorarji 1 Ramkrishna.		Mmember: Indian Merchants Chamber 1980.
26. Jaya..ishna Harivalla Bhdas	Mayor of Ahmedabad	3	20	6	1 Lalbhai. K. 1 Mafatlal 2 Sri Ambica 1 Ghia 1 Tata 1 Kilachand	Central Bank of India	-

Contd...

S. No.	Name of Director	Past Association with the State	No. of FERA Cos.	Total No. Directorships held	Industrial House No.	Industrial House Names	Financial Institution	Offices held in ASSOCHAM or other Chambers of Commerce
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
27.	B.M. Ghia		2	21	6	4 Ghia 1 Khatau 1 V.S. Dempo 2 Tata 1 Kothari 1 Mafatlal		--
28.	M.V. Arunachalam		3	16	7	4 Murugappa 1 Birla 1 Kanoria RK 1 Shriram 1 JK Sivshania 1 Oil India 2 Parry 2 Public Sector	Reserve Bank of India, Central Board	President: FICCI 1976-77 South India Chamber of Commerce & Industry, & Indian National committee of the International Chamber of Commerce, 1972-73.
29.	T.E. Barnsley		2	12	1	1 Murugappa 1 Branches All Other Companies Incorporated abroad 2 Subsidiaries 1 Asbestos Cement		
31.	S.K. Lalbhai		2	10	3	6 Lalbhai 1 Mafatlal 1 ICI		

Contd...

S. No.	Name of Director	Past Association with the State	No. of FERA Cos.	Total No. Director-ships held	Industrial House No.	Industrial House Names	Financial Institution	Offices held in ASSOCHAM or other Chambers of Commerce
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
32.	R. Setluri		9	17	6	1 Asbestos 2 Nsjwadia 1 Parry 1 Garware 1 Chowgule 1 Tata		
33.	G. Bergkuist			2		12 1 The rest all for Cos Incorporated Abroad.	2 Tata	Member ASSOCHAM, President Bombay Chamber of commerce & Industry.
34.	N.A. Palkh[illegible]wala	Indian Ambassador to	3	13	4	1 ACC 6 Tata 1 Andrew Yulu 1 Maftlal 4 Tata Cos abr-oad	ICICI.	Member ASSOCHAM President Bombay Chamber of commerce & Industry.
35.	S.Y. Rege		4	18	4	1 Chowgule 4 Subsidiaries 1 J.K. Singhania 1 Chinai 1 Salgaocar		
36.	Ravinder Narain		2	13	5	1 J.K. Singhania 2 Subsidiaries 1 Sri Ambica 1 Escorts 1 Raunaq Singh		

Contd...

S. No. Name of Director	Past Association with the State	No. of FERA Cos.	Total No. Directorships held	Industrial House No.	Names	Financial Institution	Offices held in ASSOCHAM or other Chambers of Commerce
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
37. D.J. Madan	-	1	18	2	1 Seshasayee 4 Tata	Member Advisory Board CITI Bank.	-
38. M.L. Apte		2	30	7	3 Mafatlal 1 ACC 1 Bajaj 1 Tata 1 Kirloskar 1 Kothari D.C. 1 Sarabhai	Grindlays Bank Ltd.	Bombay Chamber of commerce, ASSOCHAM
39. D.S. Mulla		2	28	5	2 Bajaj 1 Kirloskar 1 Rallis 1 W.G. forge 2 Subsidiaries 1 L&T. (Larsen & Toubro).		
40. V.S. Tyagaraja Mudaliar		2	15	4	1 Dalmiaj 1 Muthiah 1 TVS 1 Parry		
41. J.N. Guzder		3	14	7	2 Nsjwadia 2 Parry 1 Sarabhai 1 Union Carbide 1 Swedish Match 1 Chowgule 1 Mafatlal		Member: Indo-Australian Society.

Contd...

S. No.	Name of Director	Past Association with the State	No. of FERA Cos.	Total No. Directorships held	Industrial House No.	Industrial House Names	Financial Institution	Offices held in ASSOCHAM or other Chambers of Commerce
(1)		(2)	(3)	(4)	(5)	(6)	(7)	(8)
42.	K.S. Vaidyanathan		1	11	3	1 LU/LIC/DU 3 Parry 3 Pierce Leslie		
43.	B.P. Ray		15	25	10	1 Usha Martin 1 Parry 1 Birla 1 Hindustan lea-ver 2 Chloride 1 Bangur 1 Andrewyule 2 Jardine Hend-erson 1 Geoenka KP.		Bengal Chamber of Commerce & Industry.
44.	N.R. Rao		3	24	5	1 Parry 1 Escorts 2 Public Sector 1 Mahindra 2 Kothari D.C. 1 A.F. Harvey	Managing Director, State Bank of India	
45.	R. Venka[illegible]aswamy Naidu		4	15	4	3 Parry 3 Naidu G.V. 3 Naidu V.R. 1 Andrewyule		
46.	N.W. Gujar		4	11	2	6 Kirloskar 1 Parry		

TABLE 11

Illustrative List of Foreigners who are Chairman/ Vice Chairman/Managing Director/Deputy Managing Directors on the Boards of Foreign Companies in India

S.No.	Name of the Company	Name of Directors	Year
	(1)	(2)	(3)
1.	Atlas Copco	J.E. Ahlin (Managing Director)	1979
2.	Bata	D.M. Mearchant (Managing Director)	1980
3.	Bayer	G. Wallbrecht (Managing Director)	1981
4.	Boots	Borje Skog (Managing Director)	1981
5.	Cadbury	C.K. Finlay (Managing Director)	1978
6.	Chloride	K.R.T. Hodgson (Chairman)	1979
7.	Dunlop	A.W.G. Macintyre (Chairman)	1980
8.	Food Specialities	H.A. Trueb (Chairman & Managing Director)	1980
9.	Hindustan Lever	C.M. Smith (Vice Chairman)	1978
10.	H.M.M.	S.J. Scarff (Chairman & Managing Director)	1981
11.	Indian Oxygen	K.D. Moore (Chairman & Managing Director)	1978
12.	India Tyre and Tube Company	L.R. Gibbons (Chairman)	1981
13.	Mercke Sharp & Dhome	Huskel Ekaireb (Chairman)	1979
14.	Pieco Electronics	W. Maclaine Pont (Chairman & Managing Director)	1980
15.	Sandoz	W.A. Staub (Deputy Managing Director)	1980

SOURCE: Prospectuses and Annual Reports of the Respective Companies.

TABLE 12

Illustrative List of Foreign Directors who hold Directorships in the Affiliates of the Parent Company Abroad

S.No.	Name of Company	Name of Director	Directorships held in the Affiliates Abroad
	(1)	(2)	(3)
1	Associated Bearing	A. Carlen	1
		G. Bergkvist	10
2	Britannia	R.J. Palmer	2
3	Dunlop	K.J. Johnson	15
		L.R. Gibbons	1
4	Guest Keen Williams	L. Hodges	1
5	Glaxo	T. Walker	5
		C.B. Newcomb	3
6	H.M.V. (Gramaphone)	P.A.D. Duffell	7
7	Indian Aluminium	J.H. Hale	9
		C.W. Birkett	2
		E.A. Trigg	9
8	Pfizer	D.S. Reid	3
		H.A. Mckinnell	12
9	Shalimar Paints	E.W. Osmond	8
10	Tube Investments	B.S. Kellett	4
		T.E. Barnsley	11
		R.M. Bagnall	6
11	Union Carbide	J.M. Rehfield	3
		J.B. Law	11
		R.E. Brindley	10
		M.G. Skelsey	8
12	WIMCO	Nills E. Granberg	6

SOURCE: Prospectuses of the respective companies.

FOOTNOTES

1. For discussion of the process of the formulation and enactment of this measure through which business interests were able to secure significant benefits, see Kamal Mitra Chenoy, Industrial Policy and Big Business in India: A Case Study of FICCI, 1947-1966, Ph.D. thesis submitted to Jawaharlal Nehru University, 1983, unpublished.

2. Corporate Studies Group, Functioning of the Industrial Licensing System--- a Report, Indian Institute of Public Administration, New Delhi, January 1983, mimeo.

3. Ibid., Chap. III, Table-III.10.

4. Ibid., Chap. III, Table-III, 13.

5. N.K. Sengupta, Controller of Capital Issues, speech at the Institute of Chartered Accountants, New Delhi, November 23, 1981, quoted by Nagesh Kumar, "Regulating Multinational Monopolies in India," Economic and Political Weekly, 29 May, 1982, p.911.

6. The Committee has proposed the abolition of managing agencies in the sugar, cotton, textile and cement industries. See India, Ministry of Law, Department of Company Affairs, Report of the Managing Agency Enquiry Committee, (Delhi: Manager of Publications, 1966), p.17.

7. Nagesh Kumar and Kamal Mitra Chenoy, "Multinationals and Self-Reliance: A Case Study of the Drugs and Pharmaceutical Industry," Social Scientist, No. 107, April 1982, p.17.

8. An earlier draft of this section by Nagesh Kumar was published in Economic and Political Weekly, May 29, 1982. See Reserve Bank of India Bulletin, July 1975.

9. FERA and the Department of Company Affairs lists include companies in services sectors like shipping, airlines, banking, liaison office, consultancy firms and non-profit organisations etc. which are not included in the RBI figures.

10. See Sudip Chaudhuri "FERA : Appearance and Reality" Economic and Political Weekly, XIV (16) April 2, 1979 pp. 734-744; for a critique of FERA, see Ibid., Goyal S.K., "Multinational Corporations in India : The need for a realistic policy frame work." Reprint No. 2, Corporate Studies, Indian Institute of Public Adminstration (mimeo); Kumar, Nagesh, "Evaluation of Direct Foreign Investment in India, A Case Study of Drugs and Pharmaceutical Concerns," an unpublished M.Phil. dissertation submitted to the Delhi School of Economics, Delhi, 1980 and Economic and Political Weekly, editorial, "Expansion through FERA," December 3, 1977.

11. Minister for Finance in response to Lok Sabha Question 4921, dated 18.9.1981.

12. Excluding a few companies where permission under Section 29(2) (a) of FERA have been granted on a "non repatriation" of capital and income basis. Minister of State for Finance in response to a Rajya Sabha Unstarred Question No. 1364.

13. Monopoly power refers to the ability to influence price and quantity supplied by the company. In fact, all the three cases which have so far been referred to the MRTP commission for investigation into the monopolistic trade practices were of MNCs viz. Colgate Palmolive (India), Cadbury Fry(India) and Coco Cola Export Corporation. See India, Ministry of Law, Justice and Company Affairs. Report of the High Powered Expert Committee on Companies and MRTP Acts, Delhi, Manager of Publications, 1978, p.262.

14. For applicability of the MRTP Act to the foreign companies See S.K. Goyal, The impact of foreign subsidiaries on India's Balance of Payments. A study prepared for the CTC-ESCAP, Bangkok. New Delhi, Indian Institute of Public Administration 1979, (mimeo).

15. S.K. Goyal, Monopoly Capital and Public Policy, New Delhi, Allied 1979, UNCTAD, Control in India of Restrictive Business, (by H.K. Paranjape), Geneva U.N., 1978 Paranjape, H.K. "Curbing Monopoly,1981 Plans and Pitfalls" Mainstream, October 10 and 17 and Khurana, R. Growth of Large Business, New Delhi, Wiley Eastern, 1981.

16. See India, Ministry of Law, Justice and Company Affairs, n.13, Report of the High Powered Expert Committee on Companies and MRTP Acts, Delhi, Manager of Publications, 1978.

17. Goyal, n.15.

18. B. Datta, and Shadi Lall, "Branches and subsidiaries of foreign companies operating in India," Company News and Notes, Vol. VIII (15-16) August, 1 and 15, 1979.

19. UNCTAD, n.15.

20. Ibid.

21. Parnajape, n.15.

22. Economic Times, September 9, 1981.

23. Business India, July 21.

24. India, Ministry of Law, Justice and Company Affairs, n.13, p.238.

25. UNCTAD, Marketing and Distribution of Tobacco, Geneva, UN, 1978, p.40.

26. ITC's Prospectus, 1981.

27. Ibid.

28. Some reflections of VST's connection with ITC can be had from the source of Management. According to VST's 1979 Annual Report, out of 49 high income employees (receiving more than Rs.36,000 per annum) including senior managers etc.) 18, were with ITC earlier.

29. UNCTAD, n.24, Table 9.00, p.31-32.

30. Lionel Gray, F. and Jonathan Love, (eds.), Jane's Major companies of Europe, London: Longman, 1975.

31. Economic Times, August 26, 1981.

32. Business India, January 18-31, 1982.

33. For instance, the Monopolies Inquiry Committee Report which formed the basis of the MRTP does not have a mention of this aspect nor has the Report of the Joint Committee on the MRTP Bill. See India, Report of the Monopolies Inquiry Commission, Delhi, Manager of Publications, 1965 and India, Rajya Sabha Secretariat, The Monopolies and Restrictive Trade Practices Bill, 1967, Report of the Joint Committee, New Delhi, Rajya Sabha Secretariat, 1969.

34. S.K. Goyal, n.15, pp.100-101. For a list of these companies see Table 3.

35. Joint Committee Report on Foreign Exchange Regulation Bill, 1972, Lok Sabha Secretariat, New Delhi.

36. This was even admitted by a representative of the Bengal Chamber of Commerce and Industries in the Joint Committee on the Foreign Exchange regulation Bill, 1972 Evidence

37. Even in the USA a company is considered foreign controlled if 10 per cent or more capital is held abroad. In Canada the criteria is as low as 5 per cent. Benjamin Cohen, Multinationals and Asian Exports, New Haven, 1975, p.9.

38. For a list of these companies and their foreign equity participation see Table 4.

39. H.M.V. Gramaphone Company now has 39.84 per cent equity participation but it can still exercise its right of appointing one-third of the directors and managing directors according to article 89 of the Articles of Association. The company diluted its foreign equity in February 1977.

40. Sir Purshotamdas Thakurdas and H.C. Waters, each of them were on the boards of directors of 50 concerns, at one time. See M.M. Mehta, Combination Movement in Indian Industry, p.36.

41. Section 278 of the Companies Act, 1956.

42. This was a phenomenon brought out in some detail in the Mahalanobis Committee Report, which found that directors affiliated to industrial houses (termed 'industrial director accounted for 51 per cent of the total membership of the boards of directors of 15 leading banks in 1959-60. See India, Planning Commission, Report of the Committee on Distribution of Income and Levels of Living, Delhi, 1964, Part I, pp.46-48.

43. A.B. Lewy, Private Corporations and their Control, Vol.I, 1950, p.259.

44. For a list of directors holding more than one directorship see Table 5.

45. For a list of these persons and their links with financial institutions see Table 6.

46. This was adequately reflected in the case of FERA 1973 where the ASSOCHAM was very effective in diluting the provisions of the FERA.

47. For names of these companies, see Table 3.

48. For names of directors of MNCs and members of various committees of ASSOCHAM, see Table 7.

49. See Table 5 for names of directors and the number of directorships held by each between 1977-1982.

50. See Ashok Desai, "U.S. Corporations as investors in India", in Economic and Political Weekly, December 8, 1979, p.201-205.

51. For names of foreign directors and their companies, see Table 8.

52. For an industry-wise classification of directors, see Table 9.

53. See Corporate Studies Group, "Functioning of the Industrial Licensing System -- A Report," op. cit., Chapter III, p.44, 46, Appendix II, p.114, also S.K. Goyal, Monopoly Capital & Public Policy, op. cit., pp.

CHAPTER VIII

MULTINATIONALS AND POLITICS: A CASE STUDY OF THE DRUGS AND PHARMACEUTICALS INDUSTRY IN INDIA

In the foregoing analysis we have examined the influence of MNCs and their lobbies in the formulation as well as the implementation of Indian industrial policy. In this chapter we study the extent of the MNCs' political influence in policy making in an industry which has been dominated by them viz. the drugs and pharmaceutical industry. The analysis presented here shows that the domination of this industry by MNCs not only gives them the powere to influence governmentatl decisions but in itself is an outcome of their lobbying activities.

Section I: **Drug Industry at Independence:**

The drugs and pharmaceutical industry the world over is a highly oligopolistic industry, characterised by a few giant MNCs controlling large market shares in almost all the major therauptic groups.[1] For instance the information provided in the Monopolies Inquiry Commission, 1965 report shows that out of 97 major drugs studied, in the case of as many as 72, the major producers accounted for over 70 per cent of total production. In another 18 cases, the share of the largest producer was above 50 per cent. In most of these cases the major producer was a multinational affiliate.[2] The role and character of operations of MNCs in this industry were studied by two government appointed committees viz. Pharmaceutical Eqquiry Committee, 1954 (PEC) and the Hathi Committee, 1975. The latter specifically dealt inter-alia with the reasons for multinational domination over the Indian drugs and pharmaceutical industry.

The Pharmaceutical Enquiry Committee after a detailed and extensive examination-of the affairs of the industry came to the conclusion that, "The Pharmaceutical Industry in India, when compared with the industry in UK, and USA, may be considered to be almost non-existent."[3] The domestic activity in the industry largely included the fabrication of imported drugs into tablets, capsules and injectibles and their marketing. (p. 63) In this foreign firms had an advantage in the form of better access to the source of bulk drug from their principals and of

already established markets for their brand names. These firms thus accounted for over two third of total pharmaceutical sales in the country. The foreign firms invested relatively very little in factories and employed fewer personnel but accounted for disproportionately high proportion of imports. The committee observed that though the broad principle laid down by the Planning Commission, was that foreign investment should be permitted in new lines of production as far as possible, the case with drug industry was not the same.

"In many cases, foreign firms were allowed the exploitation of the markets unessential items such as tooth pastes, face creams, balms, laxatives, cough syrups etc., which certainly do not call for foreign collaboration for their manufactaure in India. The payment of royalties the committee noted, were exhorbitant vary considerably from 12 per cent to 15 1/2 per cent even for more or less similar products. The agreements "Even in the case of production of essential drugs and pharmaceuticals, referred only to "Know-how" of their processing and not to their manufacture from basic ingredients. Even for this royalty payments amounted sometimes to as high as, 12-1/2 per cent. Such huge royalties on finished proucts imported to bulk and only repacked in this country seemed unwarranted to the committee."[4]

The Committee also noted the substantial expenditure by foreign controlled companies on advertisements, which in 1952 amounted to over Rs. 1.04 crores or 9.88 per cent of turnover. It was aware that the trends in operations of the drug MNCs were to "make the country entirely dependent on foreign imports of bulk pharmaceuticals".[5]

The Pharmaceutical Enquiry Committee in view of the above recommended a package of controls on the MNC affiliates in the Pharmaceutical industry.[6] It recommended inter-alia that (a) the new foreign concerns be allowed to set up factories only for products not manufactured in adequate quantities by existing units, and that these should produce from the basic chemicals stage or near it as possible, within a reasonable time. (b) Existing foreign controlled companies should progressively extend their manufacturing activities to include the production of bulk pharmaceuticals, starting from the basic

chemicals stage or as near it as possible. (c) The Patent Laws were to be amended "to secure effective utilisation of all developments in the field of science and medicine, whereever necessary in the interest of the country." (d) In tie-ups with foreign firms, equity participation was to be preferred, but foreign capital participation should generally not exceed 49 per cent. Firms with 100 per cent foreign equity and foreign branches were only to be permitted to be established for the manufacture of basic chemicals and drugs, which Indian managed concern were unable to take up. Even in these cases the desirability of insisting on Indian equity participation after the completion of manufacturing process, was to be considered.

The recommendations of the PEC were far-reaching and if followed, would have substantially restricted the operations of the drug MNCs in India. In the event, the Pharmaceutical Enquiry Committee's more onerous recommendations were not accepted, and a conciliatory policy towards the drug MNCs was followed. At this stage no specialised, i.e. pharmaceutical industry lobby of foreign companies existed.[7] However, interested MNCs and their prospective Indian collaborators sought to obtain the necessary concessions, at we have observed above, through their own efforts together with the apex body of foreign capital : ASSOCHAM.[8]

Section II: **Curtailing the Public Sector, 1956-1958**

Apart from averting the implementation of the main recommendations of the PEC, the major success of MNC lobbying seems to be in their success in getting a very ambitious plan to build up a public sector drug industry in India drastically curtailed. This plan, implemented, would have probably restricted the monopoly position of many - MNCs in the industry severely. In 1953, General Dr. Sahib Singh Sokhey, an eminent medical expert, who was instrumental in the setting up of the Hindustan Antibiotics (public sector) plant which was completed in 1954, visited the Soviet Union in his capacity as Assistant Director General of the World Health Organisation (WHO),and found that it "offered much the best facilities for putting up an integrated drug industry in the country."[9]

On the basis of Sokhey's report, an Indian delegation comprising two chemists, Dr K. Ganapathi and Dr. Shirsat and Sokhey himself, went to the Soviet Union in 1955, and prepared a tentative project report for the putting up of an integrated drug industry in India with Soviet collaboration. The Soviet offer seemed so attractive, that the Government of India, at the initiative of Prime Minister Nehru invited the Soviet Government to send a team of experts to advise the Indian Government on setting up a state-owned drug industry in India.[10]

A Soviet team of experts visited India in February 1956, and presented a detailed and comprehensive report in May the same year. The team proposed that since more than 40 per cent of the drug expenditure of India was incurred on antibiotics, the main effort should be directed towards the establishment of antibiotic plants, together with the putting up of plants for producing the most important synthetic drugs and a plant for making the intermediate chemicals necessary for the manufacture of these synthetic drugs. The following specific recommendations were made:

(i) Extention of Hindustan Antibiotics to increase its annual production of penicillin from 15 million M.U. to 40 million M.U. and to establish new units for the annual production of 85 tons streptomycin aureomycin and other antibiotics, and vitamins D-2 and B-12.

(ii) Construction of a new plant to produce annually 60 million M.U. of penicillin and 85 tons of streptomycin and other antibiotics, 500,000 litres of Dextran and Vitamns D-2 and B-12.

(iii) Construction of a chemical and pharmaceutical plant with an annual production capacity of 2,300 tons of synthetic drugs and vitamins.

(iv) Erection of a large plant for the production of Chemical intermediates with an output of 94,000 tons per annum which would be converted to over 33,000 tons of finished intermediates, over 17,000 tons for drugs and over 15,000 tons for drugs and plastics.

(v) The setting up of a plant for the manufacture of endocrines.[11]

These plants were to be totally self-sufficient and would cover more than 75 per cent of the annual drug expenditure of the country. The estimated cost of the whole integrated project was Rs. 34.5 crores and it was expected to save India Rs. 35 crores a year in foreign exchange at the then prevailing import prices. Moreover, since the Soviet Government treated the production of drugs as one of the pure

sciences, it would provide all technical know-how and no royalty on any account would be charged. Later, when the Soviet Government was approached by the Indian Government for financial assistance, (as India was facing a foreign exchange crisis in 1957-58), the former agreed, in June 1957, to give a long term loan of 30 million roubles (about Rs. 10 crores) to finance the cost of the equipment to be imported, to be repaid in easy instalments on 2-1/2 per cent interest, after the plants started operating.[12]

For all the attractions of this project, it had a major political drawback. As Parulekar noted, "this project could allow no scope to the private sector of either foreign or native origin to extract monopoly profits."[13] Furthermore, during this period the Indian Government was trying to attract capital from the West. Indian big business which had earlier till around 1955 opposed the liberal policy towards foreign capital, had come around to support the entry of foreign capital with which it hoped to collaborate.[14] In this environment therefore, the virtual public sector domination of a lucrative industry, even though it had been included in Schedule 'B' on the April 1956 Industrial Policy Resolution under which all new undertakings were to be in the public sector, was unlikely. The political balance of forces, as it were, favoured the private sector, and the MNCs in particular.

In the Government, the private sector had an important ally, Manubhai Shah, the Minister of State in the Ministry of Commerce and Industry, who prior to his political career had worked for some 13 years in high managerial positions in the Shri Ram-house Delhi Cloth & General Mills (DCM). Shah was sympathetic to the private sector[15] and he, and the Ministry for Commerce and Industry, apparently played a key role in the very substantial modification of the Soviet proposal. [16]

To prepare the ground for the rejection of the proposal as framed by the Soviets, the Ministry of Commerce and Industry sent a team of Indian experts to the Soviet Union in September 1956. The new team did not include any of the members of the earlier team viz. General Sokhey, Dr. K. Ganapathi and Dr. Shirshat. In fact, according to Parulekar, none of the members of the new team could be considered an expert on the

drug industry. A CPI M.P. claimed that the new team was "packed with persons, who can be trusted in discharge a predesigned job and they did it well."[17] After a short tour of the Soviet Union and Western Europe, the expert team submitted a report to the Government that the drug industry should remain in the private sector and private firms should seek American, West German and Italian aid. On the basis of this report the Ministry of Commerce and Industry drastically modified the original Soviet proposal.[18]

In February 1958, almost two years after the Soviet expert team had submitted its report, the Ministry of Commerce and Industry asked the Soviet Government to send a second team of experts for formulating a drug project, which was a very considerable modification of the original Soviet proposal. The Ministry proposed the following plants in this order of priority (which later formed the basis of the final Soviet aided projects) :

(i) A synthetic drugs plant to produce 868 tons of synthetic drugs annually.

(ii) A plant for endocrines including the restablishment of a modern slaughter house.

(iii) A plant for extracting alkaloids from medicinal plants.

(iv) A plant to manufacture surgical instruments.

(v) A new antibiotic plant to produce penicillin (85 tons), streptomycin (85 tons), tetracyclines and new antibiotics (125 tons), totalling 295 tons.[19]

The differences between the original Soviet proposal and that made by the Ministry of Commerce and Industry are striking. The Ministry's proposal omitted the extension of Hindustan Antibiotics altogether, and brought down the new antibiotic plant from the second priority to the lowest.[20] The omission regarding the Hindustan Antibiotics plant was because the Government had already entered into an agreement with the American firm Merck to expand the factory to be able to make 45 tons of streptomycin. The plant would not produce aureomycin, the other new antibiotics and vitamins D-2 and B-12 that were included in the Soviet offer. Moreover for the collaboration with Merck, India would have to pay royalty charges in dollars (income tax free): (a) 2-1/2 per cent on sales in India; and (b) 5 per cent on sales in countries other than

India. According to Sokhey while the cost of production of streptomycin would have worked out to less than Rs. 157 a kg., the streptomycin produced in collaboration with Merck would cost about Rs. 267 a kg.[21] Further, the agreement with Merck provided for the utmost secrecy about the technology to be utilised in the plant. This contravened, as Sokhey and Parulekar noted, the agreement entered into by the Government of India with the WHO and UNICEF IN 1951, which had stipulated that Hindustan Antibiotics would freely exchange technical knowledge and receive trainees from other countries.[22] The secrecy clause was apparently instrumental in the removal of Dr. K. Ganapathi, the eminent research scientist and collaborator of Sokhey, who had been a member of the first Indian team of experts which visited the Soviet Union, from his position as Laboratory Director of the Penicillin Factory at Pimpri in 1952.[23]

A second major difference between the two proposals related to the omission of the Soviet recommendation for the setting up of a plant to produce intermediate chemicals necessary for the production of synthetic drugs. This was because the Government of India was negotiating with Bayer, a FRG-based MNC for the setting up of a plant for producing 6 intermediates.[24] In this case also, there was a much higher price to be paid. Whereas the tentative cost of the Soviet plant was Rs. 11.50 crores, that of Bayer plant was Rs. 18.95 crores. Credit if available from the Federal Republic of Germany or the MNC, would be at about 6 per cent, while Soviet credit was at a lower interest of 2-1/2 per cent only, and was repayable in rupees.[25] The fact that instead of an intermediate chemicals plant, other projects like a slaughter house with a plant for making endocrines, a plant for surgical instruments and a research laboratory for medicinal plants (of which there were already three in the country), were included revealed a certain distortion of priorities. These activites though useful, in Sokhey's estimate, did not account for even 10 per cent of India's drug expediture.[26]

Thirdly, though the new proposals also included a plant for manufacturing synthetic drugs, instead of followinng the Soviet recommendation for the production of 2300 tons of 52 synthetic drugs and

vitamins annually, it restricted the proposed production to only 868 tons a year by excluding 32 synthetic drugs which were in great demand and yielded high profits.[27] In defence of its new proposal, the Ministry of Commerce and Industry argued that in the case of these 32 synthetic drugs, licenses had already been given, mostly to European or American based MNCs or to Indian concerns in collaboration with them. But Sokhey pointed out that in most cases these synthetic drugs were not manufactured locally or from indigenous raw materials, but were imported as penultimates or nearly finished products which were merely purified and labelled 'made in India', leading to a continual drain of foreign exchange. Sokhey argued that even in the presence of these firms, the plant envisaged in the Soviet proposal could be set up, as though it would enable a production of about two and a half times that of current imports, it would amount to only one-fourth of the quantity of synthetic drugs that would be ultimately required by the country. The public sector plant would also provide healthy competition with the private sector, and keep costs of production down.[28] It could also be argued, though neither Sokhey nor Parulekar did so, that the co-existence of both sectors and the reservation of new undertakings for the public sector was enjoined on the Government by the inclusion of the drugs and pharmaceutical industry in Schedule 'B' of the 1956 Industrial Policy Resolution, which was barely a couple of years old.[29]

The drastic modifications[30] of the original Soviet proposals for a public sector dominated drug indusry, was evidently a consequence of the lobbying by not only the MNCs concerned, but also by various elements of the entire complex of forces favourable to the entry of foreign capital in India. The generally favourable environment for foreign investment, referred to earlier, provided the necessary conditions for the success of lobbying efforts by the concerned MNCs. An American magazine, Chemical and Engineering News, whose correspondent interviewed Antonic J. Knoppers, Merck's international head, reported on the lobbying by Merck, in particular its talks with Morarji Desai, the then Finance Minister. The latter was well known for his sympathy towards business interests.[31] The report is quite explicit :

Much negotiating took place between the Government (of India) and the Company men before Merck's Indian venture got a green light. As final

steps take place in India, Merck's International head, Antonic J. Knoppers meets Indian Finance Minister, Morarji Desai at a luncheon given in honour of the Minister in New York.

Merck's entry into Indian Pharmaceuticals makes friends, future profits and helps sideswipe Soviets.

Drug officials started looking at India about two years ago, just as the Russians began a big push to have India freed from dependence on Western chemicals and pharmaceuticals, Soviet engineers, loans, and all else needed would be provided if the Indians would take USSR help and build state-owned indusry.

Fortunately, for the free world, Merck and other US and Western drug and chemical firms have not been idle since April (1958) last...

Merck's efforts have helped in part to stall this Soviet offensive. However Knoppers fully admits that eventually some products in this area will be produced using Russina knowledge and aid. But the original Soviet offer, which was all-embracing (and somewhat obsolete technologically, some say) is shelved and the Indian Pharmaceutical industry will not be a Government monopoly.

As far as political implications for the future (are concerned), Knoppers hopes that ' Our performance in India is so good that any love affair with the Russians becomes merely Platonic.'[32]

Despite the Cold War rhetoric evident in the magazine's report, it is clear evidence of the lobbying efforts by the Western MNCs especially Merck, and their success.

The obvious advantages in the original Soviet offer, which we have examined above, were consistently sought to be played down by Government spokesmen, including the Minister concerned, Manubhai Shah, so as to refute allegations of favouritism and the succumbing to MNC lobbying, at the cost of national interests. In reply to a question in the Rajya Sabha, Shah attempted to dismiss criticisms based on an analysis of comparative costs of production by arguing that such analyses were "premature", as these costs could only be arrived at after a unit's

total cost, its manufacturing costs, the production programme, etc., were worked out.[33] On other occasions in the Rajya Sabha and Lok Sabha, Shah claimed that the new proposals benefitted the country, by allegedly suppressing certain facts.[34] This was, of course, only to be expected. The Government could hardly be expected to admit that it had, under MNC pressure, accepted projects in an important industry, which were not in the national interest.

The major success of the lobbying efforts by Merck and other drug MNCs, had major consequences for the development of the drugs and pharmaceutical industry in later years, which we will examine below.

Section III: **Strengthening the operations of Drug MNCs:**

The foreign exchange crisis of the late fifties led the Government policy towards the MNCs in general, and particularly those in the drug industry to become liberal. This was despite the fact that the PEC had specifically recommended a stricter policy towards the MNCs, as early as in 1954. Another government appointed committee on the industry, popularly known as the Hathi Committee (1975) observed that MNCs in the drug industry got a big impetus during 1952-65 when as many as 364 items were allowed to be manufactured by 15 leading MNC affiliates. Only four of these items were bulk drugs, and of the 360 remaining items, many could easily have been manufactured by Indian companies.[35] These formulations included household remedies, many of which were infact over the counter (OTC) drugs like cough mixtures, ring worm ointments, health salts, gripe mixtures, laxative tablets, eye drops, malted tonics, alcohol based tonics, digestive tablets, etc. The permission to manufacture these items was through the issue of "permission letters" (a practice that continued uptill 1968. However, a sub-commitee of the Hathi Committee which discussed the legal status of "permission Letters" under the Industries (Development & Regulations) Act, 1951 with the Ministries concerned and also obtained clarifications from the Secretaries of the Ministry of Petroleum, and Chemicals, the Directorate General of Technical Development (DGTD) and the Ministry of Industrial Development, came to the conclusion, accepted by the majority in the Hathi Committee, "that 'Permission Letters' do not have any legal

backing in terms of the provisions of the Industries (Development and Regulations) Act..."[36] In other words, not only did official policies during this period deviate from the recommendations of the PEC, but they were also violative of its own system of industrial regulation and its lynchpin: the Industries Act.

The liberalisation of licensing policies in the 1965-1967 period, also facilitated the development of the MNC affiliates in the Indian pharmaceutical industry. Under licensing policy changes announced in July 1965 and October 1966, existing manufacturers were permitted to diversify production into the manufacture of 'new articles' and to expand production of licensed or registered capacities up to 25 per cent, subject to the condition that no additional plant and machinery, other than balancing equipment indigenously procured, was installed. However, in February 1970, this concession was withdrawn, and foreign firms were prohibited from effecting diversification without an industrial license. For diversification that had taken place earlier, regularisation was required through "carrying on business" (COB) licenses. Under this new procedure, 12 foreign and five Indian companies obtained the necessary COB licenses covering 20 bulk drugs and 215 formulations.[37] The majority of the members of the Hathi Committee were of the view that most of the companies granted COB licenses had defaulted in not informing the DGTD of the particulars of their diversification activities, as required dunder the Government's Press Note dated October 27, 1966. On their part, the concerned authorities did not verify whether these companies had taken "effective steps" for the production of items covered by their COB applications. In the majority view of the Hathi Committee, "permission letters and COB licenses have given undue advantage to foreign companies to the detriment of the Indian sector."[38]

The Committee also noted that despite the February 1970 notification prohibiting the augmentation of production capacities by foreign firms, as many as 11 companies with 57 per cent and above foreign equity were producing bulk drugs in excess of licensed capacity in 1971, 1972 and 1973, a fact known to the DGTD.[39] "Foreign interests", were apparently "campaigning for regularization of the excess capacities of production. Their views are that shortages of

drugs would result otherwise and that the country's requirements are so enormous as to accommodate any poduction that Indian companies may achieve"[40] These views, evidently put forward by the Organisation of Pharmaceutical Producers of India (OPPI), are repeated even in their current campaigns for modifications in the regulation of the drug industry (as we shall see below).

The position of dominance attained by the drug MNCs was also facilitated by the Patents law which prevented Indian Companies from entering into the field of synthetics drug production. A number of the MNCs asserted their patents rights over life-saving or essential drugs and took legal action against Indian companies which tried to import the bulk drugs and process them into formulations.[41] Although the Patent Act was amended in 1970, as all applications for drug patents were frozen since 1963, patents were not sealed, and consequently the "Licenses of right" that could only be given under the amended Act three years after the sealing of patents, could not be awarded. Indigenous manufacturers in representations to the Hathi Committee claimed that because of the anomaly, many bulk drugs available at competitive rates could not be imported.[42]

The consequence of the various policies followed by the Government was the dominance of the MNCs in the drug industry. In 1973-74, the foreign drug companies (i.e. those with 26 per cent or more foreign equity) contributed about 70 per cent of the total sales turnover of pharmaceuticals in the country amounting to Rs. 370 crores. Out of this, tonics, house-hold remedies, vitamins and minerals etc. accounted for about Rs. 70 crores. On the other hand, of the 60 companies in the foreign sector, only 19 produced bulk drugs, which contributed only 27 per cent of the turnover or Rs. 19 crores.[43] The value of imports of bulk drugs, penultimates, intermediates and chemicals was about Rs. 35 crores during 1973-74 alone, because of the continued dependence of the industry on imports. The total outflow of foreign exchange towards payment of royalty, technical fees and dividends during 1969 to 1973 was around Rs. 26 crores.

The majority in the Hathi Committee also refuted the usual argument in support of investment by MNCs i.e. that it would facilitate

technology transfer, by highlighting the fact most technologies flowing from the parent MNCs were 15 to 20 years old and could have been imported without permitting equity participation. The majority in the committee noted that fears that technology flow would stop if foreign equity was barred or discouraged were "exaggerated" as the experiences of countries with state-owned drug industries had shown. These countries had either bought the drug technologies required or had been able to develop them on their own.[44] Significantly, the Committee got the impression, after its discussions with the Indian Drug Manufacturers' Association (IDMA) and other associations representing the small and medium Indian drug manufacturers, "that there is little support between Government and these sectors of the Industry". It also found that "there seem to be exaggerated notions about the capabilities of foreign companies vis-a-vis Indian units".[45]

This was an extremely important finding. It revealed the efficiency of the lobbying by OPPI, as contrasted to that by IDMA and other associations representing Indian manufacturers. Not only was the Government favourably disposed towards the MNC affiliates, this was true even of the medical profession which tended to prescribe the branded formulations manufactured by the foreign sector.[46] In that sense the dominance of the foreign sector was not only economic, it was political, in so far as its political leverage and influence considerably exceeded that of its Indian rivals.

The political influence exerted by the MNCs lobby as a whole was manifest in the divergent policy recommendations of the Hathi Committee. The majority view was quite unequivocal. Since it believed that the

> "continued presence... of the highly profit motivated multinational sector can but promote only...(their) busness interests. Their presence in India, as a part of their global effort to capitalize on human suffering in an organised manner, must therefore cease as early as possible".

The majority therefore strongly recommended that the multinational units in the drug industry be taken over, to be managed by the proposed National Drug Authority.[47] A second minority view, clearly recogised the "political overtones" of the proposed takeover of the MNC affiliates and stressed the desirability of the continued presence of MNCs in Indian industry, if these were kept under strict surveillance.[48]

Whereas the majority felt that the MNCs operations were too multipronged to be controlled by even strict regulation, thereby necessitating nationalisation, the minority opposed this measure because it realised its political consequences on the Government's strategy to invite foreign capital. In that sense, the political leverage of MNCs was reflected in both views.

The division among members of the Hathi Committee on this issue, reflected the influence of the MNCs. The political leadership represented in the Committee, including its chairman Jaisukhlal Hathi, Yashpal Kapur, Vasant Sathe, C.M. Stephen (all Congress (R), the last two later became Union Ministers), K.S. Chavda (Congress (O)) and Ranen Sen (CPI) supported the proposal for takeover. They were backed by Professor B.V. Ranga Rao.[49] Just as there was a rather remarkable unanimity among the non-government numbers, irrespective of their divergent political beliefs, there was an identity of opinion among the six representatives of various Ministries on the Committee, all of whom opposed the nationalization. Hathi, in an interview, quite categorically observed that, "It was undeniable that foreign companies were supported by the bureaucracy".[50] A senior OPPI official interviewed by Hasan also admitted that some senior bureaucrats supported the MNCs.[51]

The Hathi Committee, despite its differences over this vital matter, was able to arrive at some unanimous decisions regarding the drug industry. The Committee recommended an immediate dilution of foreign equity in foreign drug companies to 40 per cent, to be progressively diluted further to 26 per cent. It warned against dispersal of shares issued consequent to dilution, as a widely dispersed shareholding would not reduce the effective control of the parent MNCs, and suggested that the Government or public sector undertakings buy these shares. The Committee also urged that foreign drug companies should not be given preferential treatment as specified in the guidelines of the Foreign Exchange Regulation Act (FERA) of 1973, and in Appendix I of the Industrial Licensing Policy of 1973.[52]

After evaluating all arguments put forward in support of the continuance of brandnames, the Hathi Committee recommended the phased abolition of brandnames, which were to be replaced by generic names. A list of 13 drugs already marketed under generic names, was suggested for the immediate changeover.[53] It also proposed that new drugs when introduced into the country should not be allowed to be marketed under brand names. As a majority of multiple drugs combinations were irrational, causing "a colossal national wastage of drugs...", the Committee recommended that such cases should be eliminated. It recognised the necessity for the amendment of the Trade and Merchandise Marks Act, 1958 and the Drugs and Cosmetics Act and Rules.[54]

In view of the fact that there was no unanimous recommendation for the nationalisation of the drug MNCs, the Committee recommended several curbs on this foreign sector. For instance it suggested the levy of excise duty on drug samples distributed by manufacturers and that the expenditure incurred in this practice should not be deemed to be business expenditure for purposes of corporate taxation.[55] This was an important suggestion because the distribution of free samples was one of the ways by which the foreign drug companies had favourably influenced the medical profession. The Committee also recommended that the Government discriminate against foreign companies in favour of Indian companies that were technically competent.[56] In regard to the condition that all drug companies with a turnover of Rs. 2 crores and more should produce the bulk drugs required for new formulations, it urged that this be imposed only on foreign companies.[57] All these recommendations were made not only with a view to blunt the potentiality of foreign companies to exploit their reputations and thus smother the development of the Indian sector, but also to simultaneously implement "a more purposive and positive policy to help the Indian sector..."[58]

All the recommnedations of the Hathi Committee Report taken as a whole, comprised a potentially very susstantial measure of State regulation of an industry in which MNCs has enjoyed considerable profits. Therefore any attempt, particularly one as far-reaching as that of the Hathi Committee, to curb MNCs was bound to face considerable resistance.

Section IV. **Lobbying Against the Hathi Committee Recommendations**

The major lobby of the drug MNCs in India, was the Organisation of Pharmaceutical Producers of India (OPPI) founded in 1965. In 1975-76, of its 56 ordinary members, 34 were companies with substantial foreign equity participation, representing the foreign sector in the drugs and pharmaceutical industry in India.[59] Its member companies accounted for 70 per cent of the country's pharmaceutical output Its Presidentship generally rotated among the top five or six foreign drug companies,[60] further revealing its domination by MNC affiliates. The OPPI however, has sought to obscure this fact. In the period following the furore and hectic lobbying over the Hathi Committee Report, the OPPI claimed in its Directory of Members published in late 1976, that it represented "large-scale, medium and small-scale units... with Indian majority participation as well as... with foreign majority partiipation and or collaboration.[61] Apart from the OPPI individual drug companies also launched an orchestrated campaign against the recommendations.[62] In a memorandum submitted to the Hathi Comittee, OPPI had tried to deny any distinction between Indian and foreign companies, arguing that,

> In the surcharged atmosphere that currently surrounds the pharmaceutical industry it is important to recognise that all units of ownership are in fact Indian, they operate in India, are operated by Indians, for the people of India, and are subjected, to the laws and regulations of India.[63]

Systematically taking up the points of criticism of the foreign sector, made in the Hathi Committee discussions OPPI sought to refute each one.[64] It stressed the importance of increasing drug production and criticised all controls over the industry arguing that they "have no meaning in our present context and perhaps these are the root causes of the scarcities that we face today".[65] It repeatedly urged equal treatment to all units, which should be evaluated equally on the basis of performance and efficiency. Criticism of the Indian companies was implicit in its emphasis on the importance of minimum quality control and sound nanufacturing practices. OPPI also defended the claims of the existing, mainly foreign controlled units for additional production, on the grounds that these units were better placed, in view of the then

financial constraints, to produce at a much lower cost and more speedily than the prospective new producers, who did not have the necessary infrastructure.[66]

OPPI fully aware of the trends of the discussions in the Hathi Committee, suggested that no drug be imported if it could be manufactured by "any unit in our country".[67] It recommended a stable and long term pricing policy, with preferably controls only over net profits, in order to create the requisite environment for the growth of the industry. In this connection it pointed out that basic research was expensive and was thus contingent on a suitable environment. OPPI called for the streamlining of procedures to facilitate the introduction of new drugs. The proposed abolition of brand names was opposed on the ground that this would lead to an increase in the marketing of spurious and sub-standard drugs.[68]

OPPI, like some members of the Hathi Committee argued the nationalisation of the drug industry was unnecessary as the Government had the requisite powers to regulate both foreign and Indian companies.

Section V: **The Role of Indian Companies**

Most of the large Indian companies, like Alembic Chemicals and Sarabhai Chemicals (the latter was a member of OPPI and a joint venture with Mercke, Sharp and Dohme, a leading MNC were against the takeover of foreign companies. According to Hasan, this was because they were large enough to compete with the foreign companies, and thus saw little reason in losing the benefits of foreign collaboration.[69] Moreover these companies were associated with the Amin and Sarabhai groups respectively,[70] the first in turn a member of FICCI and the second of ASSOCHAM. In view of the positions of these industrial houses and chambers on the need for foreign investment, their associated companies could not have supported measures so strongly directed against foreign capital.[71] Some small scale units that opposed takeover, did so not only because of the fear of the loss of state percentage affecting the supply of raw materials as well as orders for supply, as claimed by Hasan,[72] but also because of their dependence on the foreign companies[73]

Most other Indian companies, both medium and small scale but also including Unichem, the largest Indian company were organised in the Indian Drug Manufacturers Association (IDMA). IDMA, in whose activities another large-medium Indian company Ranbaxy was very prominent,[74] supported the Hathi Committee's recommendation for the takeover of foreign drug companies. The drug MNC affiliates in their turn alleged that Ranbaxy had used all kinds of means to influence the Hathi Committee.[75] Interestingly, Ranbaxy was not only a member of IDMA but also of OPPI itself.[76] (Later Ranbaxy took more pro-MNC positions, as we shall see below). IDMA consciously sought to employ nationalist sentiments in its campaign, implying that the foreign drug companies and their supporters were anti-national.[77]

The Indian drug companies organised in IDMA lobbied with the Government to make it accept the Hathi Committee recommendations on the expansion of the public sector and the reduction of foreign equity.[78] It criticised both the Government and the bureaucracy, as it had before the Hathi Committee, for favouring drug MNCs at the cost of Indian companies.[79]

There were however, substantial points of convergence between OPPI and IDMA. Both demanded a flexible and selective pricing system, arguing that it was necessary for the profitability of the industry.[80] All sectors of the industry, foreign, Indian, large and small scale were united in their opposition to the abolition of brandnames.[81] In this case also, the profit motive was evidently supreme. The abolition of brand names with the introduction of generic names would have severely curtailed the profits of all sectors of the drug industry, and was therefore opposed.

The nationalist overtones of the IDMA propaganda against the foreign sector, forced OPPI representatives to stress their own nationalism. As the OPPI resident director put it recently, "all the so-called foreign drug companies are managed by Indians who are as patriotic as anyone else in the industry."[82] However, this nationalist stance, earlier taken by the IDMA and other Indian sector lobbies, continues in their current propaganda efforts and the OPPI reaction remains largely the same as before (as we shall see below).

Apart from the efforts of IDMA, several associations were involved in the campaign against the drug MNCs. A National Convention on Economic Independence and Perspective of the Drug Industry organised seminars throughout the country. At the Delhi seminar, attended by Members of Parliament, medical personnel and scientists, the takeover of foreign drug companies was vigorously advocated.[83] Seminars were also organised in support of Indian companies by the Central Drug Research Institute and the Indian Medical Association.[84]

Section VI: **The Government's Response**

In the 1975-76 period, the Congress Party was faced with an unprecedented political crisis culminating in the declaration of an internal Emergency in June 1975,[85] a couple of months after the submission of the Hathi Committee Report. During the Emergency, a number of policy measures were initiated to facilitate the entry and the expansion of foreign investment in India.[86] The Government was also increasingly dependent on foreign aid and investment, particularly in providing the foreign exchange component for the Fourth Plan.[87] Within the private sector, the large business houses were eager to enter into joint ventures abroad with foreign collaborators, and therefore were sympathetic to the MNCs.[88] The Government, on its part, also indicated its interest in exploring possibilities for Indo-US cooperation in setting up joint enterprises abroad.[89]

The liberal economic policies during this period also included repeated assurances to the private sector.[90] K.D. Malaviya, the Minister for Chemicals and Fertilizers reiterated this position when he argued that, "A doctrinaire position on nationalization was contrary to the spirit of the new economic environment as it would cause uncertainty in the private sector". He therefore, advocated a healthy balance of the three sectors in the drug industry : the large foreign and Indian, and the small scale.[91] An official of the Ministry of Chemicals and Fertilizers put the matter quite bluntly when he pointed out that, "nationalization of the (drug) industry would offend the Western countries, particularly the United States whom the Indian government would not like to alienate."[92]

The Government's response to the lobbying against the Hathi Committee recommendations, was also influenced by other factors. Through donations to various "social causes" which amounted to an equivalent of Rs. 1.4 crores for the three-year period 1971-72 to 1973-74,[93] the foreign drug companies organised in OPPI had enlisted considerable support. For instance, their financial contributions to the Maharashtra Government, earned them the goodwill of the latter whose spokesmen opposed the recommendations of the Hathi Committee.[94] The substantial donations to the Prime Minister's Relief Fund, which OPPI sources claimed amounted to Rs. 80 lakhs in 1972-73 alone, also apparently earned them further goodwill in the Congress Party and in Government circles.[95]

In this environment, the insistence of K.R. Ganesh, the Minister of State for Petroleum and Chemicals, on the acceptance of the Hathi Committee recommendations, was bound to isolate him politically, within the ruling Congress Party. Ganesh, according to some commentators, played a pivotal role during the final stages of the Hathi Committee deliberations,[96] and this apparently earned him the hostility of those sympathetic to the drug MNCs. His efforts were to a large extent neutralised by his senior, K.D. Malaviya, who apparently tried to soft pedal the Report and its controversial recommendations.[97] Apart from Malaviya and others in the political leadership, officials in the Ministry of Petroleum and Chemicals, together with other supporters of the drug MNCs, made Ganesh a major target of attack. This led to Ganesh's resignation,[98] which was "welcomed with unconcealed joy by the OPPI."[99]

A reconsituted Cabinet Sub-committee comprising of Bansi Lal (Chairman), Karan Singh, K.D Malaviya, P.C. Sethi, C. Subramanium, T.A. Pai, and P.N. Haksar was set up by the Government to deal with the Hathi Committee Report. P.C. Sethi had replaced K.R. Ganesh as the new Minister of State for Chemicals and Fertilizers.[100] According to Bahuguna, who as the Minister for Chemicals and Fertilisers of Janata government (in 1977) had access to the relevant documents, "There was a Sub-Committee's recommendation which indicates...that they were not willing to go to any length with the Hathi Committee except on minor matters."[101]

The Emergency period ended with the defeat of the Indira Gandhi-led Congress Party in March 1977. The attempts at formulating a drugs policy on the basis of the Hathi Committee recommendations were therefore delayed.[102] This delay, and the rejection of the recommendation for takeover of the drug MNCs, as well as of the other major potentially anti-MNC recommendations, taken together constitute a striking illustration of both the lobbying efforts by MNCs, and of the extent of their support in crucial sectors of the Indian polity. Despite all the weighty evidence marshalled by the Hathi Committee, the Government did not move against the drug MNCs on the lines recommended by it, even though leading members of the Congress(R) Party had been party to the Committee's decisions.

Section VII: **The New Drugs Policy, 1978**

After the Janata Party Government came to power, Bahuguna directed that the recommendations of the Hathi Committee be examined on a priority basis in the light of the representations received from "various associations of the industry... as well as individual manufacturers".[103] The Minister had a series of discussions with the Indian Medical Association (IMA), and with the various associations representing the drug industry: OPPI, IDMA, All India Manufacturers Association (AIMO), Indian Pharmaceutical and Allied Manufacturers Association (PAMDAL),[104] the last three being representatives of the smaller Indian drug companies. Representations from these associations evidently influenced the New Drugs Policy, as we shall see below. Significantly, representatives of the employees in the drug industry were not associated in the deliberations. This would appear to be a rather striking omission in a society formally committed to the 'socialist' goal.[105]

The Janata Government in its New Drugs Policy did not accept the majority recommendation of the Hathi Committee regarding the takeover of foreign drug companies, but instead chose to "direct the activities of foreign drug companies to subserve national objectives ..."[106] Unlike in the Hathi Committee, in the new policy, the FERA definition (and guidelines) under which a company was deemed foreign only if the direct foreign equity in it was above 40 per cent, was accepted and extended to

the drugs and pharmaceutical industry.[107] Moreover, the unanimous recommendation of the committee that foreign undertakings should be directed to progressively reduce foreign equity to 26 per cent was dropped. Not all companies were to be instructed to reduce their foreign equity to 40 per cent, as those engaged in the manufacture of formulations or of bulk drugs involving high technology were to be permitted to retain higher levels of foreign equity.[108] However, the Government financial and public sector institutions instead of acquiring the entire sum of equity disinvested by foreign shareholders as recommended earlier, would only "aim to acquire, to the extent possible, 66 per cent of the balance equity ..."[109]

The Hathi Committee recommendation on the setting up of an autonomous National Drug Authority (NDA) was also not accepted, as the Janata Government came to the conclusion "that it would not be possible to establish a totally independent authority on the lines suggested by the Committee."[110] In view of the importance of the NDA in the Hathi Committee's scheme of things this was an important dilution. Similarly, the abolition of brandnames was restricted to only five drugs: analgin;aspirin; chlopromazine; ferrous sulphate; and piperazine and its salts.[111]

While the Hathi Committee had proposed that the foreign drug companies should not be eligible for the preferential treatment given for the production of items listed in Appendix I of the Industrial Licensing Policy, the New Drugs Policy replaced the entire range of drugs and pharmaceuticals by a new definition which included only production of.

(a) Drug intermediates from the basic stage for production of high technology bulk drugs; and

(b) High technology bulk drugs from basic stage and formfulations based thereon with an overall ration of bulk drug consumption (from own manufacture) of formfulation from all sources to 1:5.[112]

The value of formulations that could be produced by the FERA drug companies was thereby restricted to five times the value of their total bulk drug production, whereas for the Indian sector the permissible

limit was double i.e. 1:10. It was further stipulated that the FERA drug companies should supply half of their bulk drug production, to non-associated formulators.[113]

On the above conditions, foreign drug companies were to be allowed to regularise excess capacity on the basis of the highest production achieved in any one year during the three-year period ending March 1977. It was however stated that no unauthorised production (i.e. production not authorised by industrial licences, COB licences, permission letters or DGTD registration), would be regularised.[114]

In the sphere of R & D, foreign companies with a drug turnover exceeding Rs. 5 crores per annum were required to (a) have R&D facilities within India on which their capital investment should be at least 20 per cent of their net block, and (b) to spend at least 4 per cent of their sales turnover as recurring expenditure on R&D facilities.[115] The New Drugs Policy also stated that a "suitable" export obligation based on the total sales turnover in formulations "may be prescribed" for foreign companies while consolidating their licences, after a case by case review.[116] These companies were also to be "encouraged" to offer their quality control facilities to the small scale sector on a no profit no loss basis.[117]

The New Drugs Policy also stipulated a system of price control which would replace the Drug (Price Control) Order of 1970 with ceilings on the gross profits of individual drug manufacturers, without any discrimination against foreign drug companies.

The New Drugs Policy also reserved certain lines of production for the public sector and the Indian sector. According to its indicative list, 25 items would be reserved for the public sector, 23 items were reserved for the Indian sector, and 66 other items were open for all sectors.[118]

These in brief, were the salient features of the New Drugs Policy. Opposition members were critical of the failure of the Janata Government to incorporate the more radical measures advocated by the Hathi Committee. For instance, K. A. Rajan (CPI) and R.P. Das (CPI-M) moved cut motions during the course of the discussion in the Lok Sabha on the

demands for the Ministry of Petroleum, Chemicals and Fertilizers.[119] Significantly, the Janata Government did not provide for a separate discussion on the Hathi Committee recommendations or on the New Drugs Policy. Vayalar Ravi (Cong-U) charged that Bahuguna had surrendered to the same MNCs who were responsible for the removal of K.R. Ganesh.[120] An exchange between Yashwant Borole (Janata) and Bahuguna revealed the extent of the support MNCs enjoyed in crucial sectors of Government. Responding to Borole's allegation that drug MNCs had been able to install excess capacities because of the connivance of the concerned officials, Bahuguna insisted that the guilty were "Not merely the officers but the (Congress) Government and the Government men at the top... It was done at the political level."[121]

During the above exchange, Borole who insisted on the generally pro-MNC attitudes of the bureaucracy, warned that the proposed Committee on High Technology to be set up to evaluate claims about the nature of technology employed by drug manufacturing units, might arrive at assessments supportive of the drug MNCs. He therefore inisted on a double check by an independent agency.[122] As it turned out, (and as we shall see below), his fears turned out to be prophetic.

The New Drugs Policy, as contrasted to that of the Hathi Committee, reveals the extent of the influence of MNCs even on the Janata Government. Despite the very substantial evidence regarding the functioning of the foreign controlled sector of the drugs industry, which was quite apparently deleterious to national interest, the Janata Government, like its Congress predecessor, refused to nationalise it, or even to progressively Indianise it, (by reducing foreign equity in these companies to 26 per cent). This is not to say that the foreign drug companies or its lobbies fully endorsed the new policy. OPPI for instance, while stating its "agreement with the major objectives of the policy," claimed that "the means or the methods spelt out... may prove to be counter-productive."[123]

Notwithstanding OPPI's reservations, the New Drugs Policy incorporated substantial concessions to the drug MNCs as we have seen above. OPPI had lobbied quite vigorously against the recommendations of the Hathi Committee (as we have also seen above). Prior to the

announcement of the policy it had released a series of two public information advertisements explaining its basic positions which were published in 9 leading national English dailies and Indian language newspapers with a total circulation of 2.1 million and a readership of 10 million.[124] Subsequently, these advertisements were released in leading economic journals published from Bombay, New Delhi and Calcutta, (including Capital, Commerce and Eastern Economist). The advertisements were published by some foreign drug companies in their house journals, while some others had them released in medical journals. OPPI also mailed copies of these advertisements to opinion leaders, including Members of Parliament.[125]

OPPIs lobbying did not diminish with the announcement of the New Drugs Policy. Once the policy was announced, OPPI lobbied to modify it and to influence its implementation. In this effort it was, as before, not alone.

Section VIII: Lobbying for Policy Changes

The lobbying for changes in the New Drugs Policy was complicated by the differences between the foreign controlled sector and the Indian drug companies, manifested most sharply by the conflict between OPPI and IDMA. There were, as we have noted above, contradictions between the MNC affiliates and the Indian drug companies, particularly the medium and the small. IDMA spokesmen repeatedly criticised the role of the industrial licensing policy which, it believed, had permitted the drug MNCs to attain "a very comfortable and strong position" in the industry.[126] They argued that the FERA criterion for defining a foreign company was not only inadequate but that its use would defeat the objective of the new policy in encouraging the growth of the Indian sector which it equated with "wholly-Indian companies" as contrasted to the "so-called 'Indian' companies with foreign equity of 40 per cent or below." IDMA claimed that these companies were still multinational companies, and argued that if these were treated at par with the "wholly-Indian" companies, the latter would be unable to grow and would consequently be faced with the problem of survival. It therefore demanded preferential treatment for wholly-Indian companies.[127]

On its part, OPPI sought to counter IDMAs arguments by pointing out that any policy favouring wholly-Indian companies would necessitate a change in the FERA guidelines. Moreover, OPPI claimed that there was already sufficient preferential treatment towards the Indian sector incorporated in the New Drugs Policy, as certain fields of drug manufacture were barred to the drug MNCs. OPPI apparently lobbied with sympathetic journalists in order to get its rebuttal of the IDMA campaign, the support of the national English language press. For instance, a Business Standard report on the controversy clearly favoured OPPI, by referring to a "suspicion in informed quarters that what IDMA wants is a totally protected market."[128]

OPPI was also able to recruit an influential former bureaucrat into its ranks, as its Resident Director in Delhi. B.K. Keayla, had served as a Special Assistant to K.R. Ganesh in 1974-75, when the latter was the Minister of Chemicals and Fertilizers, and later as the Officer on Special Duty in the same Ministry between 1976 and 1978, and had been actively involved in the formulation of the New Drugs Policy. In April 1978, Keayla joined the public sector Indian Drugs and Pharmaceuticals Ltd. (IDPL) in a senior managerial position (as Chief Coordinator), and took premature retirement in April 1980, and then became OPPIs Resident Director, (or main liaison officer with the Government) in Delhi.[129] In view of his background, Keayla must have been a particularly effective liaison man for the OPPI. Of course, as is well known, it is precisely such an opportunity after retirement which makes bureaucrats more symphathetic to MNCs.

The 'nationalist' campaign by IDMA against the foreign drug controlled companies did not stop it from uniting with OPPI on a number of issues of mutual interests, as had been the case during the proceedings of the Hathi Committee. As we have noted earlier, all the drug industry associations had opposed the proposed abolition of brand names. Similarly, OPPI and IDMA were both opposed to the structure of price controls and the ceiling on profitability. We have examined all these instances in greater detail below.

(a) Dilution of Equity

After the recommendation of the majority in the Hathi Committee about the takeover of foreign controled drug companies was dropped, the major threat against the drug MNCs was that of dilution. The New Drug Policy had however explicitly provided an escape clause for drug MNCs as it had permitted companies producing high technology formulations or bulk drugs to retain upto 74 per cent of foreign equity. To determine which of the FERA companies employed high technology and could be exempted from dilution to 40 per cent, a committee on High Technology was appointed. In this sphere the role of this committee comprising only of bureaucrats, was crucial. During the debate over the new policy, the Janata M.P. Borole had already warned that in view of the pro-MNC views of the concerned administrators, the Committee's recommendations were likely to favour the drug MNCs. He had therefore urged that its recommendations be double-checked by an independent agency.[130]

The Committee in defining what consisted of high technology employed certain criteria. Some of these criteria like -- 'use of toxic material', 'careful on line process controls', 'degree of sophistication employed to ensure health safety and quality' -- were so general that virtually any company producing bulk drugs could qualify as employing high technology.[131] Moreover, not only was no review of Committee's report carried out, the Government had stipulated that this would be done if necessary, in the light of representations from the concerned drug manufacturers.[132] The extremely general criterion incorporated into the Committee's Report, and the follow-up action taken by Government would seem to confirm Borole's worst fears. After sustained lobbying by OPPI, ASSOCHAM[133] and various forums and elements sympathetic to MNCs were able to secure substantial concessions.

In the post-IMF loan environment, stringent action against MNCs was unlikely. Even so a number of multinational companies voluntarily went in for equity dilution in order to take the advantages of being 'Indian' companies under FERA. By July 1982 the Government was able to state that of 47 foreign drug companies existing earlier, only 19 remained with over 40 per cent foreign equity. Four more had agreed to reduce their foreign equity and another 3 had been directed to do so.[134]

However, major exceptions were permitted. Under the 'high technology' clause, a number of major drug MNCs : Pfizer, Johnson and Johnson, Cynamid, Wyeth, Bayers, Boots, Hoechst, Sandoz, Organon and E. Merch were exempted from dilution under FERA. Burroughs Wellcome was asked to dilute from 100 per cent to 74 per cent foreign equity. The Japanese MNC Unisankyo was allowed to retain its 49 per cent foreign equity. [135]

(b) **Abolition of Brand Names**

The abolition of brand names, as we have noted above, was opposed by all the drug associations. The new Drugs Policy had identified only 5 drugs for the abolition of brand names and the use of generic names. Foreign drug companies in this matter received open support from their principals, e.g. the FRG. based MNCs openly warned the Government against this move.[136] Eminent medical practitioners also opposed the move[137] Critical editorials were published in the press against the Government proposal.[138] Thus even the very limited follow-up of the Hathi Committee was successfully defeated in this case.

(c) **Regularisation of Excess Capacities**

The New Drugs Policy had stipulated that the basis for the regularization of production capacities would be the highest production actually achieved in any one year during the three year period ending on 31st March 1977.[139] The foreign drug lobby sought to an enhanced regularised capacity on the basis of actual production in 1980, i.e. on capacities created a couple of years after the announcement of the New Drugs Policy.[140] The Government once again succumbed to pro-MNC pressures, and decided to regularise all existing installed capacities as of 4th September 1980, in disregard of its own earlier stated policy.[141]

(d) **Formulations Production**

The Hathi Committee had recommended the phased abolition of brand names in order to curb the social waste incurred by the production of irrational and spurious formulations. The Drug Controller of India, on the basis of a report by a sub-committee of the Drug Consultative

Committee, decided to ban 16 categories of drug formulations and to phase out another 7 categories, which were found to have no therapeutic rational to have no therapeutic rationals. It was estimated that this proposed move would affect more than 1000 formulations marketed by various drug companies.[142] This move was not only opposed by the manufacturers but also by the Indian Medical Association (IMA), Indian Pharmaceutical Association (IPA) and the Indian Pharmacological Society (IPS).[143] The Government after a series of discussions decided to withdraw 18 combinations of drugs and requested that another 5 which were therapeutically irrational be reformulated. However, on 6 combinations of drugs, the Government agreed to re-examine the problem, despite the recommendations of its own expert committee.[144] Instead of the over 1000 formulations estimated earlier, only 350 formulations were to be withdrawn. Even after this move, as the Health Minister admitted in the Lok Sabha, 5 drugs identified as harmful by the WHO, would be allowed to be marketed in India.[145] The Minister also stressed during the Parliamentary debate over the issue, that no distinction could be made between foreign and Indian drug manufacturers, as both were connected with the health of the nation.[146]

(e) **Price Control**

The price controls on the drug industry indicated in the New Drugs Policy, were formalised in a new Drugs (Price Control) order (DPCO) superseeding the earlier DPCO of 1970, notified by the Government on March 31, 1979. The new DPCO was to be effective only from March 31, 1979.[147] After the new DPCO was announced, drug manufacturers led by OPPI whipped up a campaign against the order on the grounds that it was not workable. Further, most drug units flouted the DPCOs obligatory provision for the submission of price lists by April 30, 1979, thus, successfully stalling the enforcement of the order.[148] The new DPCO also made no attempt to relate the price fixation effort to the overall profitability of the drug companies. This led the financial daily Business Standard to query editorally : "Does it speak for the power of the multinationals in the field and their capacity to get official controls bogged in self-made difficulties?" The drug MNCs in their

campaign against DPCO warned, with Pfizer first issuing the warning, that they might have to resort to a production go-slow because of the decline in profitability.[149]

In response to industry pressures,[150] the Government periodically allowed increases in the prices of controlled drugs. By April 1982, the prices for 180 out of the total of 200 important bulk drugs had been revised upwards. Prices for almost all the formulations classified in Categories I and II of the new DPCO had also been revised upwards. This had allowed the drug MNCs to jack upwards the prices of many essential and commonly used drugs. For instance the price of 'Dilautin' capsules, a vital drug used for the treatment of epilepsy throughout the country, was increased by Parke Davis from Rs. 11.50 per pack to, 19.50 per pack, a 75 per cent increase. Similarly, the price of 'Paraxin' tablets manufactured by Boehringer Kvoll for the treatament of typhiod, was hiked from Rs. 4.45 to Rs. 7.15 per packet of 12. Among the painkillers, Geoffery Manners jacked up the price of 'Anacin' by 100 per cent. There are many such examples.[151]

The most startling success of the drug industry lobbies in resisting price controls under the DPCO, 1979, was in the case of some formulations classified in Category III, of the Order whose vitamin content was to be regulated. This was to be done under an amendment to Schedule V of the Drugs and Cosmetics Act, which was to come into force on July 22, 1978. Since then, no less than 16 extensions for the enforcement of the amended Schedule were issued by the Drugs Controller at the behest of the Ministry of Chemicals and Fertilizers. "This", as the Financial Express noted, "amounts to making a virtual mockery of the Act..."[152]

(f) **Research and Development**

The stipulation in the New Drugs Policy that the foreign drug companies should invest at least 20 per cent of their net block in R & D, and spend at least 4 per cent of their sales turnover on R & D expenditure has not been implemented.[153] This clearly is yet another major instance of the success of MNC lobbying.

(g) **Bulk Drug Production**

The Hathi Committee had recommended that the drug MNCs be directed to substantially increase their production of bulk drugs. This was also a objective of the New Drugs Policy. But according to OPPI's own estimates, the contribution of the foreign sector in the production of bulk drugs has consistently declined, stating from a production valued at Rs. 63 crores (i.e. 42 per cent of the total bulk drug production) in 1976-77, declining to Rs. 56 crores (28.0 per cent) in 1978-79, further declining to Rs. 53 crores (23.4 per cent) in 1979-80 and remaining stagnant at Rs. 53 crores (22.1 per cent) in 1980-81.[154] The extent of the decline is doubtless exaggerated because of the decline in the size of the foreign sector, as a number of drug MNCs devested some of their equity holdings and become 'Indian' companies under the FERA definition. Yet, in between 1976-77 and 1978-79, the share of the foreign sector in the total production of formulations increased: from 41.7 per cent (Rs. 292 crores) to 44.0 per cent (Rs. 460 crores).[155] At any rate, it is apparent that the foreign sector drug companies have not significantly expanded their bulk drug production. To date, according to IDMA sources, drug MNCs have not started producing some vital bulk drugs from the basic stage e.g. conticosteroeds, anti-bacterials etc.[156] This has led to a almost secular increase in the value of bulk drug imports, from Rs. 74.29 crores in 1977-78 to Rs. 105.06 crores in 1981-82.[157]

Moreover, as noted above, the expert committee on high technology defined "high technology" bulk drugs in such general terms, that the drug MNCs were able, not, only to escape equity dilution but also to avoid manufacturing vital "high technology" bulk drugs from the basic stage. Here too, lobbying by the drug MNCs appears to have been quite effective.

(h) **Leading Role of Public Sector**

The New Drugs Policy was explicitly directed towards obtaining the leading role for the public sector drug units. But since the announcement of the policy at least 13 bulk drugs have been removed from

the list of drugs reserved for the public sector.[158] Though these have only been opened to the Indian sector, this would include a number of MNC affiliates with 40 per cent direct foreign equity or less. Thus the share of the public sector in the production of bulk drugs had declined, from 32.7 per cent (Rs. 49 crores) in 1976-77 to 26.3 per cent (Rs. 63 crores) in 1980-81.[159] In the sphere of the production of formulations, the public sector has been unable to enhance its role, with its share in total production remaining more or less stagnant, ranging from 6.8 per cent (Rs. 47 crores) in 1976-77 to 6.7 per cent (Rs. 80 crores) in 1980-81.[160]

The struggle against the public sector, as we have noted above, was in some ways a common one in the entire private sector, with both Indian as well as foreign drug lobbies vigorously opposing any diminution of the role of private enterprise.

(i) Provision of Essential Drugs

The availability of essential drugs has been a recurrent theme in various policy statements. Yet here also substantial shortfalls exist, as illustrated in the Table below. In many cases, the insufficient supply of these essential drugs is because of underutilized capacity by the drug MNCs. For instance, Pfizer which had for INH and for PAS and its salts a licensed capacity of 80 and 110 tonnes respectively, produced only 52 and 94 tonnes respectively of these two essential drugs in 1979.[161]

The continued shortfalls in the supply of essential drugs despite the various policy measures announced by Government, are another indication of the singular failure to curb the operations of the MNC affiliates in the drugs industry.

Table - 1

Production & Demand of Essential Drugs

Name of Drug	Essential Demand 1979-80 (in tonnes)	Production (in tonnes) 1979-80	1980-81
Anti-malarial			
Chloroquin	250	35.16	34.62
Amodiaquin	40	38.49	23.15
Quinine	8	15.55	15.72
Anti-tubercular			
PAS and salts	600	481.78	405.46
INH	200	112.43	129.20
Thiacetazone	40	12.55	8.44
Anti-filarial			
DEC	30	21.57	18.99
Anti-leprosy			
DDS	28	16.20	21.05

SOURCE: W.V. Rane, "Why don't our drugs mach our diseases?" Science Today, October 1982, p. 10, Table 4.

(j) Self Reliance in the Drugs Industry

A, if not the, major objective of various regulatory policies has been the establishment of a self reliant drugs and pharmaceutical industry in India. According to official figures, this effort has not only failed, but the margin of failure has actually increased over time as a consequence of the several shortcomings mentioned above. Although, in 1973-74, there was a positive balance of trade in the drugs industry (i.e. exports exceeded imports) of Rs. 3.17 crores, this was transformed into a balance of trade deficit of Rs. 26.31 crores in 1978-79, which further increased to 41.36 crores in 1981-82.[162] This phenomena occurred because of the fact that the increase in the value of imports exceeded that in the value of exports. The bulk of the value of the imports was accounted for by the imports of bulk drugs which came to Rs. 105.06 crores out of the total imports of Rs. 136.77 crores in 1981-82.[163]

In this area also, the MNC affiliates substantially contributed to the problem. Kumar and Chenoy in an analysis of the operations of 4 leading foreign drug compaies --- Glaxo, Pfizer, Warner Hindustan and Sandoz --- found that in 1979-80, these companies had an adverse balance of trade of Rs. 3.83 crores.[164] With the overall trade deficit

increasing, the aim of moving towards self-reliance in the pharmaceutical industry was not fulfilled. This was the product of the manner in which MNCs were regulated in the industry and yet aother indicator of the efficacy of their lobbying.

Conclusions:

The fate of the objectives of the New Drug Policy would appear to bear out the contention of the majority in the Hathi Committee that the regulataory mechanisms would be insufficient to adequately curb the operations of the drug MNCs. The dilution of various measures intended to regulate foreign drug companies, was not a phenomena specific to the drug industry. This was part of a larger process, that is the overall policy towards foreign private investment in India. It was this larger context, that provided, as it would seen now, propitious circumstances for the lobbying efforts by OPPI, ASSOCHAM and other forces symphatetic to MNCs in general, and to drug MNCs, in particular.

OPPI attempts to lobby for policy changes were facilitated also by the sympathies of various crucial elements and associations involved in the process of policy formulation in the drug industry. The role of the ruling party and the bureaucracy has been noted above, and in proceeding chapters. The sympathies of the press media, have also been noted. But, as the Hathi Committee had observed earlier, the drug MNCs have been able to enlist the support of the influential professional associations of medical practitioners, particularly the Indian Medical Association (IMA). Instead of siding with IDMA, the IMA or its constituents have often sided with OPPI, in as much as they have stressed the need to increase the production of 'quality' drugs (i.e. brand named drugs).[165] A functionary of the IMA was quite frank in stating that, as far as possible, the association avoided criticising any drug company by name, particularly as the latter provided funds for the former's activities.[166] The support, though often tacit, by the professional associations, must have markedly strengthened OPPIs hands in dealing with specialised bodies such as the Indian Council of Medical Research (ICMR) etc.

Any review of the various developments in the drug industry since

independence would quite starkly bring out the substantial, and at times remarkable, successes of the drug MNCs in shaping the policies in this industry. But the effects of MNC lobbying are not restricted to this area of economic activity alone. For instance, the success of the drug MNCs and their allies in making the India Government virtually turn down the Soviet offer to build up the public sector in the drugs industry was crucial not only to the development of India's industrial policy, but also to India's political development. If the Soviet offer had came through, and if the public sector performance had been satisfactory, this pattern of development may well have been duplicated in other industries, with concomitant effects on the nature of political mobilisation in India in later years. This consideration is likely to have weighed with American and other policy makers during the period.

In the later years, the lobbying by the drug MNCs must also be examined as part of a larger effort by the MNCs to retain their positions of advantage in the Indian economy as well as to continue to be able to influence the course of Indian social development. India's stragetic position in South Asia, as well as its role as a leader of the non-aligned countries and the Group of 77, made it an exteremly important factor in regional, and even global, politics. In that sense, the choices made by it in its pattern of industrialisation and in overall economic policy, were likely to have 'demonstration effects' in other countries and other regions. Lobbying therefore, was not only in vital importance of the concerned drug MNCs, but was an important component of the political dimensions of the operations of MNCs in India as a whole.

FOOTNOTES

1. See for instance. Sanjaya Lall, "International Pharmaceutical Industry with Special Reference to India," Oxford Bulletin of Economics and Statistics, August 1974, p.143. United Nations, Centre on Transnational Corporations, Transnational Corporations and the Pharmaceutical Industry UN, New York 1979, pp.22, 114.

2. Compiled from Report of the Monopolies Inquiry Commission 1965 vol. I and II, pp, 325-31.

3. India, Ministry of Commerce and Industry, Report of the Pharmaceutical Enquiry Committee, Manager of Publications, Delhi, 1954, p. 16.

4. Ibid.

5. Ibid.

6. It also recommended controls on the Indian sector, but as that is not the focus of this case study, we shall not go into this aspect.

7. The Organisation of Pharmaceutical Producers of India (OPPI), which is a lobby of foreign controlled firms, was established in 1965.

8. See Annexure 'L'.

9. S.S. Sokhey, The Indian Drug Industry and its Future, The author, New Delhi, 1959, p.9. See also his article "Self sufficiency in Modern Medicines: An Imperative Need," The Economic Weekly, Annual No. January 1958, pp.189-195.

10. Sokhey, Ibid.

11. Ibid., p.10; also S.V. Parulekar, India's State Drug Industry A Revelation, The author, Bombay 1959, p.13 Parulekar was a Communist Party of India (CPI) member of the second Lok Sabha.

12. Sokhey, Ibid., pp.13-15; Parulekar, Ibid., pp.13-14.

13. Parulekar, Ibid., p.14.

14. Michael Kidron, Foreign Investments in India, Oxford University Press, London 1965, Chapter 4; also Kamal Mitra Chenoy, "Industrial Policy and Big Business in India. A Case Study of the Federation of Indian Chambers of Commerce and industry, 1947-1966", Ph.D. thesis submitted to Jawaharlal Nehru University, May 1983.

15. Chenoy, Ibid.

16. Parulekar, n.49, p.14.

17. Ibid., p.15.

18. Ibid.

19. *Ibid.*, pp. 15-16; Sokhey, *op. cit.* pp. 18-19 Initially the second Soviet team was told that Indian did not require a new antibiotic plant, which the Soviets reportedly considered "to be a very extraordinary suggestion..." as India even after the proposed expansion of Hindustan Antibiotics would not be producing at least six very essential antibiotics. The Soviet experts apparenlty stressed this opinion when they meet Nehru, and thus this new antibiotic plant was included. See Sokhey, *Ibid.*, p. 18.

20. This is despite the Soviet urging to the contrary. Soon after the Soviet team left, the Ministry gave out to the Press that, "in accepting the Russioan report the Indian Government has decided to give a lower priority to the manufacture of antibiotics than was suggested by the Soviet experts." *Statesman*, 10 November, 1958 cited after Sokhey, *Ibid.*, p.22.

21. *Ibid.*, p.17.

22. Sokhey, *Ibid.*, p.15; Parulekar, *Ibid.*, pp.23-24.

23. Parulekar, *Ibid.*, p.29.

24. This was stated by Manubhai Shah during an answer in Parliament cf. *Rajya Sabha Debates*, vol. XXIII, No. 6, 2 December 1958, col. 804.

25. Sokhey, *Indian Drug Industry*, n.47, p.17.

26. *Ibid.*, p.12.

27. *Ibid.*, p.19; Parulekar, n.49, pp.16-17.

28. Sokhey, *Ibid.*, pp.19-20.

29. This policy was, as is now well documented, deviated from on numerous occasions. cf. India, Ministry of Industrial Development, Internal Trade and Company Affairs, *Report of the Industrial Licensing Policy Enquiry Committee*, Manager of Publications, Delhi, 1969, *Main Report*, Chapter 6. See also Kidron, n.52, esp. chapters 4,5 and 6; and Chenoy, n.52.

30. Parulekar went so far as to term it "sabotage." cf. Parulekar, n.49, p.14.

31. H. Venkatasubbiah in a study released during FICCIs Golden Jubilee celebrations stated about Morarji Desai that, "Among senior members of the party he pro-business too, a revised edition of Sardar Patel." *Enterprise and Economic Change: 50 years of FICCI*, Vikas, Delhi 1977, p.75. See also Chenoy, n.52.

32. *Chemical and Engineering News*, 24 November 1958, cited in Sokhy, Indian Drug Industry, n.47, pp.2-3, and in Parulekar, n.49, pp.19-20. Also quoted by Sudip Chaudhuri, "The Role of the Foreign Controlled Firms vis-a-vis the Indigenous Firms in the Pharmaceutical Industry in India", a paper presented at Seminar on Drug Industry and Indian People. NewDelhi - Nov. 1981 (mimeo).

33. Rajya Sabha Debates, n.64, col.802.

34. Parulekar, n.49, pp.22-28.

35. Ministry of Petroleum and Chemicals, Report of the Committee on Drugs and Pharmaceutical Industry, Manager of Publications, Delhi, Chapter I 5, p.86; Chapter 5, Annexure II, pp.110-120. This Committee was popularly known as the Hathi Committee after its Chairman Jaisukhlal Hathi.

36. Ibid., pp.90-91.

37. Ibid., pp.86-88.

38. Ibid., p.91.

39. Ibid., Chapter 5, p.144, Annexure-IX.

40. Ibid., p.91.

41. Ibid., pp. 87,92. Sudip Chaudhuri has shown how Hoechst sought to stop the Bengal Chemical and Pharmaceutical Works (BCPW) from producing chlorpropamide by filing a false case of an infrungement of its patent. cf. Sudip Chaudhuri, "Bengal Chemical : 1892-1977, Growth and Decline of an Indigenous Enterprise," Calcutta: Indian Institute of Management, 1981 mimeo.

42. Hathi Committee, Ibid., p.92.

43. Ibid., pp. 56, 90. The foreign sector contributed less than 12 per cent of the total production of bulk drugs in the organised sector. Ibid., p. 56.

44. Hathi Committe, Ibid., p. 95.

45. Ibid., p.94.

46. This was admitted by the Indian manufacturers themselves. Ibid.

47. Ibid., p.97. See also Kumar and Chenoy, n.86.

48. Hathi Committee, Ibid., pp.97-98.

49. Interview with Jaisukhalal Hathi, 10 March 1976, cited in Zoya Hasan, "Problems of Nationalization: Case of the Indian Drug Industry 1974-75," Indian Journal of Political Science, Vol. 41 no.2, June 1980, p.238.

50. Ibid., p.237.

51. Interview with J.N. Chaudhri, Resident Representative of OPPI in New Delhi, 5 February 1976, cited in Ibid.

52. Hathi Committee, n. 75, p.98. See also Kumar and Chenoy, n.86, p.15-16.

53. Hathi Committee, pp.254-255, Chapter 10, Annexure III, p.271.

54. Ibid., p.255.

55. Ibid., p.100.

56. Ibid., p.94.

57. Ibid., p.104.

58. Ibid.

59. Calculated from OPPI, Directory of Members, OPPI, Bombay 1976

60. OPPI, n. 109.

61. Ibid.

62. Ibid.

63. OPPI, A Growth Plan for the Indian Pharmaceutical Industry, OPPI, Bombay 1974 p. 9, cited in Ibid., p. 243. The minority view in the Hathi Committee also emphasized that the Government had the necessary powers, which it had ideed used, to regulate both Indian and foreign drug companies. ef. Hathi Committee, n. 75, p. 97 See also Hasan, Ibid.

64. The OPPI suggestions were appended in an answer to an unstarred question in the Rajya Sabha in May 1975. Rajya Sabha Debates, vol. XVII No. 7, 5 May 1975, cob. 79-82.

65. Ibid., col. 80

66. Ibid., cols. 80-82.

67. Ibid., Col. 80.

68. Ibid., Cols. 80-82.

69. Gasabm b, 93m co, 246-247,

70. Sarabhai Chemicals is part of the Sarabhai group according to the MRTP listing. Alembic Chemicals is listed as part of the Amin group according to the C.I.S. House classification, Corporate Studies Group, I.I.P.A.

71. See Chapter above.

72. Ibid., p. 246.

73. For instance, Hasan makes the above observation on the basis of an interview with a Mr. Patani of Indo-German Alkaloids (now known as INGA). This compny, it was revealed in Parliament, on the basis of an agreement dated 24 August 1972 with Hoechst Pharmaceuticals, in return for the latter's provision of technical knowhow for the manufacture of certain products (the details of the drugs involved were not disclosed), gave Hoechst the right to purchase the products manufactured by them. Hence ampicillin manufactured by the small scale unit was marketed by Hoechst under its brandname 'Albercilin'. cf. Rajya Sabha Debates, Vol XVII No.7, 5 May, 1975, col. 82. Here we are not going into the question of the benami character of small scale units in this industry.

74. According to Hasan, Ranbaxy and Unichem dominated IDMA. Hasan, n. 93, p. 246.

75. Ibid.

76. OPPI, n. 109, p. 66.

77. This is evident from the Presidential speeches made at the IDMA Annual Sessions. See also Hasan, n.93, p.247. This trend in IDMA propaganda continues even today.

78. This is a consistent IDMA demand. cf. IDMA Source. See also Hasan, Ibid., pp. 246-247.

79. According to a report, IDMA complained that after the submission of the Hathi Committee Report, applications by Indian companies for the manufacture of erythromycin and gentamycin were rejected on the ground that these companies did not manufacture the bulk drug, while the MNC affiliates were given permission. Times of India, 17 February 1976, cited in Hosen, Ibid., p. 247 n.

80. For the OPPI stand see Economic Times, 17 August 1975. The IDMA statement is reported in the Statesman, 2 December 1975. See also Zoya Hasan, Government Policy Toward the India Drug Industry : A case of Dependence, Centre for Political Studies, Jawaharlal Nehru University, New Delhi, unpublished manuscript.

81. OPPI,IDMA, AIMO, ICMA, Joint Memorandum to the Hathi Committee on Brand Names, 1 September 1974, cited in Hasan, Ibid.

82. Interview with B.K. Keayla Resident Director OPPI, New Delhi, 19 January 1983.

83. Standing Committee of the National Convention, Myth and Reality of the Drug Industry, New Wave Printing Press, New Delhi 1976.

84. Hasan, n. 93, p. 247n.

85. Francine R. Frankel, India's Political Economy,1947-1977, Princeton University Press, Princeton 1978 Chapter 12.

86. Ibid., Chapter 13; See also Chapter above.

87. Frankel, Ibid., also Hasan, n. 93, pp. 249-251.

88. This is clear from a number of statements by important leaders of FICCI during these years. See FICCI, Relevant Documents and Important Correspondence for the year, Volumes for 1975 & 1976. FICCI, New Delhi 1975 & 1976. Also Frankel, Ibid. p.558.

89. Frankel, Ibid.

90. See Chapter above.

91. Financial Express, 7 May 1976, cited in Hasan, n.93, p. 251.

92. Interview with an official in the Ministry of Chemicals and Fertilizers, 16 March 1976, in Hasan, Ibid.

93. OPPI, n. 109, p. 19.

94. Hasan, n. 93, p. 253.

95. Ibid.

96. B.M., "Scuttling the Hathi Committee Report," Economic and Political Weekly, May 24, 1975, p.818.

97. Ibid.

98. This was openly commented upon during the debate on the New Drug Policy in March 1978. Lok Sabha Debates, Sixth Series, Vol. XII, March 30, 1978, Cols. 293-347.

99. Hasan, n. 93, p. 252.

100. Ibid. Hasan claims that the reconstitution of the Cabinet Sub-committee was, "The final act in the bid to appease the multinationals...".

101. Lok Sabha Debates, n. 149, Col. 411.

102. Interview with S.K. Keayla, n. 133, Keayla who had served as a special Assistant to K.R. Ganesh, played an important part in the drafting of what later became the New Drugs Policy.

103. Parliament Library, Statement on Drug Policy laid on the table of the House Lok Sabha, Library Document No. LT-1935-A-38, mimeo, para 2.

104. Ibid.

105. Though various clauses of the Forty Second Constitutional Amendment were revoked during the Janata period, socialism was retained as a national goal in the preamble of the Constitution.

106. New Drugs, Policy, n. 154, para 14.

107. *Ibid*, para. 18.

108. *Ibid.*, para. 15.

109. *Ibid.*, para. 19.

110. *Ibid.*, para. 70.1

111. *Ibid.*, para 71.

112. *Ibid.*, para 14.

113. This was made mandatory for foreign drug companies applying for industrial licenses for the manufacture of high technology lines of bulk drugs as well as for the regularisation of excess capacities Ibid., paras. 25 & 28. Apart from the MRTP companies which were also required to release 50 per cent of bulk drugs production to non-associated for mulators, the rest of the Indian private sector and the public sector were required to release 30 per cent and 40 per cent respectively. *Ibid.*, paras. 26 & 29.

114. *Ibid.*, paras. 27.3-36.

115. *Ibid.*, para. 41.

116. *Ibid.*, para. 42.

117. *Ibid.*, para. 43.

118. *Ibid.*, para 12. For the list see Annexure II to this chapter.

119. *Lok Sabha Debates*, n. 149, cols. 296,297-299.

120. *Ibid.*, col 375.

121. *Ibid.*, cols. 316-317.

122. *Ibid.*, cols. 316-318.

123. *OPPI Annual Report 1978*, OPPI, Bombay n.d., p.l.

125. *Ibid.*, p. 13.

126. *Ibid.*

127. See for instance the Presidential Address by K.M. Shah in IDMA, *18th Annual Celebrations*, 5 December 1980, IDMA, Bombay n.d. pp. 2-3.

128. Ibid., pp. 3-4. IDMA has sought to utilise various studies entical of the drug MNCs in support of its campaign, it thus not only reprinted Kumar and Chenoy's study, (n. 86), in the IDMA Bulletin, but its President J.B. Mody incorporaed arguments, sometimes verbatim, from the study into his Presidential Address, IDMAs Annual Report for 1982 also incorporated sentences, without acknowledgement, of the above study. See the Presidential Address by J.B. Mody, in IDMA 20th Annual Celebrations, 11 December 1982, (Bombay: IDMA, n.d.), esp. pp. 9-12, and IDMA, 21st Annual Report (Bombay: IDMA, n.d.), esp. p. 10.

129. "Rival drug lobbies on collision course," Business Standard, July 11, 1982.

130. See above. Also Lok Sabha Debates, n. 149, col. 316-318.

131. Kumar and Chenoy, n. 82, pp. 18-19.

132. Ibid., p. 19. These lax guidelines received critical comment in the Press-See Economic Times. December 20, 1979.

133. ASSOCHAM presented a memorandum to the Government on the drug industry in early April 1981. ef. Financial Express, April 5, 1981.

134. PTI Release, July 20, 1982.

135. Economic Times (Delhi), February 5, 1983. Business Standard, 16 December 1981.

136. Financial Express, Delhi, May 14, 1980 & August 12, 1981.

137. Economic Times Delhi, June 13, 1980.

138. See for instance, Financial Express Delhi, August 6, 1979.

139. New Drugs Policy, n. 154. para 27.

140. Economic Times Bombay, 13 February 1981. See also Kumar and Chenoy, n. 82, p. 19.

141. Indian Express, New Delhi, 18 October 1981. Also Kumar & Chenoy. Ibid.

142. Economic Times Delhi, 9, September 1980. See also Business Standard, 13 December 1981.

143. Business Standard, 18 December 1981.

144. Economic Times, 20 March & 4 May, 1982.

145. Patriot, 24 April 1982.

146. Business Standard, 25 April 1982.

147. Financial Express Delhi, 5 April 1979.

148. Ibid., 4 May, 1979.

149. Ibid.

150. In this effort, as we have noted repeatedly, OPPI ,-IDMA and other lobbies were more or less united.

151. Economic Times, 9 April 1982.

152. Financial Express, 5 January 1983.

153. IDMA A Report on the Indian Drug Industry 1980-2000 AD, Bombay, 1981, pp. 78-82.

154. OPPI Estimates.

155. Ibid. Quite significantly, the Monitoring and Evaluation (Drugs) Section of the Ministry of Petroleum, Chemicals and Fertilizers, does not have a sector-wise break-up for later years, and also depends on OPPI estimates. See for instance the Sections publications (which are for restricted circulation), Indian Drugs Statistics 1980-81, December 1981, mimeo and Status of the Drugs and Pharmaceutica Industry in India, 1982-83, October 1982, mimeo.

156. IDMA

157. Status of the Drugs and Pharmaceutical Industry, n. 211, p. 16, Table-6.

158. Financial Express (Delhi), 24 June 1982; Business Standard, 20 November 1982.

159. OPPI Estimates. The Monitoring and Evaluation (Drugs) Section publications include no break up sector-wise for 1980-81, and we have therefore used the OPPI estimates.

160. Ibid.

161. Quoted from Kumar and Chenoy, n. 82, p. 24, Table I.

162. Status of the Drugs and Pharmaceutical Industry, n. 211, p. 60, Table 4.

163. Ibid., p. 61, Table 6.

164. Calculated on the basis of Kumar and Chenoy, n. 82, p. 28, Table III.

165. This is evident from various press releases over the years by the IMA and its constitutents.

166. Interview with a functionary of the IMA, January 1983, New Delhi.

CHAPTER IX

CONCLUSIONS - A SUMMARY

1. Transnational Capital: The Global Perspective

Our report is based on the premise that a study of political dimensions of MNCs entails at the outset an examination of the nature of operations of MNCs themselves. It is important to recognize that the significance of MNCs arises out of their global expanse and the worldwide network that their operations have established. The political nature of the MNCs is thus a necessary offshoot of this expanse. Where third world countries are concerned MNCs have been more explicit and blatant in their impact, both politically and economically.

We are convinced that the increasing presence of MNCs today is not a new phenomenon but only a different form of the already existing phenomenon of foreign investment dating from colonial times when foreign capital from the colonising country was introduced in economies of third world countries. Its continuation in the post-colonial era was a consequence of the already dependent socio-economic structure established by colonialism.

It has been shown, that the phenomenon of MNCs is not an isolated one. On the one hand their growth is a part of the worldwide development of international capital. This process has not been due to any 'natural order of things' but influenced by the world wars and other major economic crises in the world that have emerged amost periodically. The development of the multinational corporate system has been an almost fool-proof system. Through this the advanced capitalist countries have retained their hold on international capital markets.

On the other hand, ever since the overthrow of colonialism, there has been a pan-third world movement towards nationalism of both political and economic forces vis-a-vis foreign domination and control over them. It is our contention that despite this, third world countries today are deeply entrenched in a global system that has affected their strategies and objectives of independent and self-reliant development of their socio-economic structures. While foreign capital

operations in these countries have increased hundred-fold, the latter have at the same time became dependent on international capital and MNCs to the detriment of their economies.

It is against this background that the present report endeavoured to look for factors other than purely 'economic' to explain the state and status of third world countries today. It is one thing to analyse the extent of foreign capital operations in these countries, but quite another to understand <u>what</u> makes foreign capital and MNCs so powerful in exercising their influence in the third world.

We believe that the operations of international capital are not determined by mere 'economic' power. The push factor of this power lies in the <u>politics</u> of their operations from which MNCs derive their ideological strength to pursue their goals. Thus the political <u>dimensions</u> of MNCs has been analysed, concretizing this analysis in the role of foreign capital in India.

Given that the nature of MNC operations is essentially global, the report considered it imperative to examine the political dimensions of MNCs in the international sphere and from the general drive conclusions for the particular. It has been our contention that given the crises of international capital especially since the seventies and also the growing protest and 'hostile' environment in third world countries, transnational capital has continued to dominate through the changing strategies and modes of operations. Political dimensions of MNCs then manifest through these <u>modes of operations</u>.

We have undertaken an examination of the broad purview of these 'modes' highlighting the politics of aid, loans, the role of international bodies such as the United Nations and its sub-organizations - the IMF etc. Political dimensions of MNCs was also examined in the context of bilateral and multilateral institutions, commissioned essentially to act as mediators bbetween foreign capital and host countries. It has been shown how the politics of foreign capital instruments the setting up of such institutions as the Brandt Commission, the NIEO or the Group of 77, not to speak of the much advertised growth model that MNCs insist upon third world countries to adopt.

We thus took up some case studies of the political involvement of MNCs, to show the extent to which they influenced the political structure of a host country in order to establish or retain control of their operations in a face of a hostile environment. The cases of Chile, Bangladesh and Iran, among others, were also studied. Instances where the state actually collaborates with MNCs is also examined viz. the manner in which MNCs exert political influence by operating through various international institutions e.g. the various bodies of the United Nations, etc. We find also that many international organizations have served as effective instruments in the propagation of the MNCs.

2. Role of Foreign Capital in India.

The political dimensions of the operations of MNCs in India reflect the global character and interests of these international conglomerates that we had discussed at the outset. The "global reach", as it were, of these MNCs is evident in the numerous instances of their political intervention in India that we have examined in preceding chapters. Moreover, the continued integration of India into the world capitalist system as well as the capitalist "mixed economy" path of development followed since 1947, provided the larger socio-economic environment which facilitated the entry and influence of international finance capital.

MNCs and their Indian affiliates had several types of allies, internally and externally, which enabled them to influence Indian economic policy with conspicuous success since 1947. At the first level, as it were, the MNC affiliates, like their parent companies and other subsidiaries and world over, sought to pack their boards of directors with influenctial personages, as we have shown in some detail. These local influentials, in the main retired senior bureaucrats or leading India businessmen, maximised the lobbying capacity of the individual foreign controlled companies. At a second level, these individual companies through their collaboration with influential indigenous entrepreneurs obtained powerful local allies, in the form of the large Indian industrial houses. At yet another level, the MNC

affiliates also operated theough the apex business chambers like ASSOCHAM, and to a lesser extent FICCI, and through industrial associations such as OPPI etc.

Externally, MNCs obtained support from their parent governments of the developed capitalist countries, and from the international financial institutions, notably the World Bank and the IMF, as we have brought out in several instances above. The combination of internal and external allies has proved to be truly formidable, and has throughout the period of our study, i.e. from 1947 and to date, proved to be a major influence in the formulation as well as implementation of economic policy. We have however democrated a number of phases in the operation of economic policies in particular reference to the attitude towards foreign capital. Before summarising these, it is necessary to reiterate the arguments that have been made in support of the entry of foreign capital into the Indian economy, and to examine their validity.

3. Arguments Favouring Foreign Capital

There have been several arguments put forward by official circles and advocates of foreign capital i.e. the interested MNCs and their allies, in support of increased foreign investment in the Indian economy. The first, which informed virtually all policy statements starting from the April 1948 Industrial Policy Statement and the Statement on Foreign Investment made exactly a year later, is that foreign investment supplements local savings and thus adds to the investment funds necessary for further economic growth. This argument has been disproved by a number of official and semi-official as well as independent studies which we have examined above. Nonetheless this argument is despite, the overwhelming evidence to the contrary, put forward in support of the liberalisation of the regulations and procedures that are perceived to hamper foreign capital.

A related argument favouring enhanced foreign investment is that foreign controlled companies are not earners of foreign exchange because of import substitutions and their exports. A number of studies have disproved this hypothesis, and as shown above, the evidence is to he contrary. A similarly questionable contention in favour of the entry of

foreign capital in the shape of MNCs, is that this would facilitate the transfer of sophisticated technology. In the course of the study various instances and studies disproving this contention have been cited. Moreover, the transfer of technology by the parent MNC situated in the metropolis to its affiliate in India, is generally a 'private' transfer, inasmuch as it is restricted only to the Indian collaborator or affiliate, who is not permitted, through the restrictive collaboration agreements, to divide information regarding the usually patented process to other companies. This leads to repetitive imports of technology, because as we have revealed above, a number of private and even public sector companies are hence compelled to import the same or similarl technology.

Despite the considerable evidence adduced to refute the above cited hypotheses put forward in support of the entry of MNCs, and the several well known cases of transfer pricing investigated by offical bodies including the MRTP Commission, pressures have continually mounted over the period studied, for liberalised access for foreign capital. This in itself is a striking indication of the strength and pervasive influence of the pro-MNC lobbies in India.

4. Policies Towards Foreign Capital

(a) The First Phase, 1947-56

The policies towards foreign capital have gone through several phases. In the first phase: from Independent to 1956, the basic framework for later economic policy was laid; but this was drastically modified as a consequence of various pressures, including those by pro-MNC lobbies. The extent of the foreign control over vital areas of India industry, made the Indian government quite dependent on Western aid, and forced the newly independent country's regime to take positions so favourable to foreign capital, that even its own business community resented it. Thus Union government agreed to the virtual liquidation of the Sterling Balances and treated foreign capital on an equal footing with indigenious investment, despite the sometimes strident opposition of large and medium Indian capital organised in FICCI and A-IMO. By January 1955 however, Indian big business came to accept the necessity

of foreign private investment, and gradually began to urge further liberalisation of the policy towards it. The next year the Second Plan (the Mahalanobis Plan) was finalised and in April the Industrial Policy Resolution (IPR 1956) was placed before Parliament. In these two documents it was categorically stated that the future economic policy was to be directed towards ensuring that the public sector would control the "commanding heights" of the economy, although a large field would be left open for the private corporate sector, including foreign capital. To this end the IPR 1956 reserved large areas of industrial activity exclusively for the state, (the Schedule A industries), while in a number of other industries (Schedule B) all new enterprises were to be state-owned.

The pro-MNC lobbies were swift to intervene. In early September 1956, Eugene Black, then President of the World Bank and later a director of ITT, wrote to T.T. Krishnamachari (TTK), the Union Finance Minister, emphasizing the need for the encouragement of the private sector. Black quite explicitly warned TTK, and through him the Indian government that the official attitude towards the private sector, both India and foreign would determine future World Bank loans to India. It was not however the case as we have seen above, that the government was earlier hostile to foreign capital, but his World Bank intervention must have further strengthened the pro-MNC lobbies in India. As a consequence, foreign capital was invited in the heavy chemicals, synthetic oil, heavy machinery, iron and steel, aircraft manufacturing and drugs industries, even months after the IPR 1956.

(b) **The Second Phase, 1957-67**

This was a period of increased liberalisation of policies towards the private sector in general, and the foreign controlled companies in particular. Further in the Third Plan there was an increased dependence on foreign aid, although this enhanced dependence was manifest even earlier in the final Second Plan. The Industrial Licensing Policy Inquiry Committee (ILPIC) has documented the large number of instances where MNCs were allowed to enter Schedule A and B industries, in clear deviation from the letter and spirit of the IPR 1956. A major, and indeed decisive shift in the official policy towards foreign capital was

announced in the industrial licensing policy statement in May 1961, which opened 26 areas for investment by foreign companies. Further concessions followed on the basis of the recommendations of the Swaminathan Committee and the reconstituted Swaminathan Committee in 1965 and 1966. As we have noted earlier, representatives of the large private corporate sector, Indian and foreign, i.e. FICCI and ASSOCHAM, comprised the only non-official members of these committees, whose recommendations at a consequence favoured the expansion of Indian and foreign monopoly groups.

During these years, as we have shown in several instances above, the World Bank, Ford Foundation, the U.S. government, and Local lobbies such as ASSOCHAM, all intervened in order to sustain and accentuate existing trends favouring liberalisation of policies towards foreign capital. The most obvious, and possibly most controversial instance, was the role of the World Bank and IMF, in particular, in forcing the India government to devalue the rupee in June 1966. The devaluation of which the potentially adverse economic consequences had been publicised by a number of critics even prior to the decision, was followed by the major delicensing of some 42 industrial items in the second half of 1966. During these years i.e. 1965-66, pro-MNC lobbies, particularly bodies like ASSOCHAM utilised the factional struggles for leadership in the post-Nehru and post-Shastri regimes, in order to push through the schemes for economic liberalisation.

This period therefore witnessed, as chronicled by ILPIC, various repetitive imports of technology through restrictive foreign collaboration agreements, and indeed an official bias in favour of foreign investment, even in Schedule A and B industries which normally should have been barred to the private sector. This resulted in a consolidation of the position of foreign capital. Whereas foreign capital accounted for 29 per cent of fixed investment in the private corporate sector between 1948-53, this relative proportion increased to 32 per cent in 1960-61. This lent it and its votaries, further strength in their mutual endeavour to push for further concessions in later years.

(c) The Third Phase, 1967-80

This period may perhaps be characterised as one of flux as there were both 'left' and 'right' thrusts in the state's economic policy. On the one hand, these years witnessed the 'social control' of major banks in 1967, and their nationalisation in 1969; the enactment of the Patents Bill in 1970, though several of its provisions were objected to by ASSOCHAM and OPPI; the abolition of the managing agency system the same year; the MRTP Act also in 1970; the nationalisation of general insurance in May 1971; and the enactment of FERA in 1973 and its implementation from the next year.

On the other hand, in marked contrast to the above measures, which to some extent negatively affected and were criticised by foreign capital, a series of concessions were given to the foreign controlled companies. Starting from the liberalisation of the import policy in 1967-68, there was a trend of increased liberalisation of imports. In July-November 1968, procedures for foreign investment were simplified and an increasing number of industries were opened to foreign capital and technology. In 1969, the government explicitly permitted foreign collaboration in non-essential and low-priority industries if these were export-oriented. The February 1970 industrial policy statement which was presented as the government's response to the ILPIC recommendations, virtually announced the final abandonment of the 1956 IPR's policy of the public sector occupying the 'commanding heights' of the economy. The new policy, which was indicated by the changes in May 1961, formally opened the "core sector" of the Indian economy, 17 industries which were later officially described as of "basic, critical and strategic importance for the growth of the economy," to the large private corporate sector, includng the MNC controlled companies.

After this last official pronouncement a spate of other concessions followed. In February 1973, the core sector industries were increased to 19. In October 1975, 21 industrial items were decontrolled. Foreign controlled companies and large Indian house companies were permitted to install and produce in excess of licensed capacities in some 30 industries including heavy industries and chemical equipment, chemicals, fertilisers, drugs, cement and paper. In April 1976, the FERA

guidelines were "amplified" on the lines of a memorandum earlier presented by ASSOCHAM to C. Subramaniam, the Finance Minister, on 6th August 1975. Under the new amended FERA guidelines, MNCs were allowed to retain majority shareholding, from 51 to 74 per cent equity if: (i) these companies were in the Appendix 1 of the 1973 Statement; (ii) they employed sophisticated technology; and (iii) exported 40 to 60 per cent of their own production.

By this stage it became apparent that FERA was not a particularly onerous or even effective restriction on its invesment. H.P. Nanda, then President of ASSOCHAM, referring to the FERA provisons stated that they had "more bark in them than bite". And he welcomed the "moderate and pragmatic approach" of the bureaucrats administering them. The other radical or 'left' measures taken during this period referred to earlier, do not seem to have adversely affected foreign capital, at least not in any large measure. For instance the bank nationalisation of 1969, only affected on foreign owned bank, the Allahabad Bank, in which the Chartered Bank had 92 per cent equity. But according to the British holding bank itself, the terms of compensation were "unobjectionable". The abolition of managing agencies also did not mark an insurmountable setback for foreign capital, as the interlocking of directorships continued in other forms, and this permitted large holding companies to continue to direct the operations of formally independent units (as we have seen above). The nationalisation of general insurance did adversely affect British interests, but by that stage the extent of foreign domination in that sector had declined. And, as we have shown in detail at several points in preceding chapters, FERA was in its very formulation, a defective instrument for the control of foreign capital.

During this period, the official ideology, as it were of a largely internally generated, self-reliant, import substituting economic development, was systematically displaced by a new emphasis on "export oriented industrialisation", and thus numerous concessions were made to the private sector, in the name of encouraging exports. In this environment, ASSOCHAM was able to get the Indian government to bring the definition of a foreign company under the Industries Act into conformity with that of FERA in April 1978, by dropping in the formers definition the reference to 'indirect' foreign investment. Thus instead of direct

and indirect foreign investment of 40 per cent equity defining a company as foreign, the new definition refered only to 40 per cent direct investment. Further, in 1978-79, there were further liberalisations of import policy, especially in the case of capital goods, raw materials and components, as desired by ASSOCHAM. Despite the rhetoric of the December 1977 industrial policy statement of the Janata government, the earlier permissiveness about the entry of foreign capital in areas reserved for the small scale sector was continued. Moreover the area reserved for the latter was actually reduced.

In this background, on the basis of the Ramakrishna Committee recommendations, the exemption limits for industrial licensing were increased from Rupees 1 crore to Rupees 3 crores in February 1978. After the replacement of the Janata Government by the short-lived coalition led by Charan Singh, there was a wavering in the earlier self-reliant policy on petroleum. But before the new government could take any further measures, it was replaced by the Congress (I) government led by Indira Gandhi who was swept back into power in the January 1980 general elections. Yet, despite these changes in regimes over this period, there is a basic continuity in the trend of policy changes, which in the main, constituted successive and continued liberalisation of policy which favoured foreign capital (as also the large Indian houses). But foreign investors were not wholly satisfied with what they had received. The earlier concessions had apparently only whetted their appetite for more.

(d) The Final Phase, Post - 1980 Trends

The return of Indira Gandhi led government in January 1980 provided the political backdrop for further, and even increased concessions for foreign capital. In February 1980, Vice President Hidayatullah welcomed MNC investment and criticised the earlier economic strategy. Around the same time, Pranab Mukherjee, one of the most senior Ministers, welcomed MNC penetration of both the domestic and foreign markets, and called for further collaboration between Indian and foreign private capital. In May 1980, the Tandon Committee, which had been set up during the Janata period in June 1979, and which had substantial private sector representation in its membership, recommended large scale opening of the

economy to MNCs, including in banking, in pursuance of a policy of export oriented industrialisation. In July 1980, Ghani Khan Choudhary announced that coking coal mining (a schedule A industry) would be opened to foreign investors on a profit sharing basis.

In the same month, the new industrial policy statement was announced. For the first time there was no reference to the socialist goal, and the public sector's role was explicitly reduced from the earlier 'commanding heights' to providing the "pillars of the infrastructure" of the economy. The facility of 'automatic expansion' which permitted companies to expand their production capacity by 25 per cent over a 5 years period which in 1975 applied to only 15 industries, was extended to all industries listed in Appendix I i.e. those open for FERA and MRTP listed companies.

Various concessions to foreign capital were made in the process of implementation of existing policy. A number of MNC affiliates e.g. Hindustan Lever, Guest Keen Williams, General Electric Company, Union Carbide, Pfizer, Cynamid, E. Merck, Johnson and Johnson etc., were allowed to retain majority foreign equity. There was a large increase in foreign collaboration approvals in 1980, with 526 proposals approved compared to the earlier peak of 359 in 1974. Two foreign banks were allowed to set up branches in India, though since the bank nationalisation in 1969 no new foreign branches had been allowed. The policy of export-oriented growth was further spelled out in a Commerce Ministry approach paper which envisaged that exports would equal 20 per cent of India's GNP by 1989-90, a proportion substantially higher than that achieved by Brazil, the classic example of such development.

MNC lobbying for various projects during these years was open, even blatant, especially in the Thal-Vaishet fertilizer project, Paradip steel plant and the off-share blocks for oil exploration. In the first case, even the World Bank took sides, and terminated its agreement to provide aid, as its own candidate, as it were, did not secure the contract. In the case of the Thal and the Hazira fertiliser projects, MNCs entered at the cost of the public sector consultants company,

Project and Development India Limited (PDIL). In another instance, the Maharashtra state government successfully insisted on importing 500 mw electricity generation plants despite their availability from BHEL.

The final negotiations around the massive IMF loan to India, and its eventual award, provided an environment conducive to still further opening up to MNCs. In line with the IMF conditionalities, anti-labour laws like the Essential services Maintenance Act (ESMA) were enacted; subsidies for food, fertiliser etc. were reduced; the prices of public sector products were increased; credit was restricted; a piecemeal and gradual devaluation of the rupee relative to the U.S. dollar was undertaken (a process that still continues); and a further liberalisation of import policy and industrial policy towards the private sector took place. At the 1982 Davos symposium, N.D. Tiwari, the Minister for Industry, Steel and Mines, stressed the favourable environment for foreign capital and urged foreign investors to invest in India. Later, the Prime Minister in a speech at London also welcomed foreign capital. In early 1983, an overseas Private Investment Corporation (OPIC) delegation to India, appreciated the investment climate in Indian and anticipated further foreign investment, in particular in some 45 foreign collaboration projects involving 26 MNCs.

The influence of pro-MNC supranational agencies like the World Bank on crucial state agencies during this period was best summed up in a report of the Overseas Development Council, which stated that this leverage was "more than either Indian officials or staff within the Bank itself are prepared to admit". It is apparent from the preceding discussion however, that this influence as manifested in policy changes conducive for MNC expansion, was very substantial.

The analysis of policies followed towards foreign capital brings out the vast amount of leeway that multinational companies have enjoyed in the country. Moreover, these policies are characterised by poor implementation and leave a large number of escape clauses. There also appears to be a widespread belief on the part of foreign companies that they can influence the government to postpone or even waive implementation of particular regulations and Act of Parliament. The delay in a large number of cases in giving full effect to the policy of

the Foreign Exchange Regulation Act is an obvious instance in point which has been explored at some length. It is also found that there is a tendency for foreign companies to take advantage of differences arising between various State agencies on the interpretation of official policy. Thus it has been found that in certain cases such agencies (including on occasion even state governments or specific departments of the Central government) have spoken out in favour of a particular policy interpretation on the precise occasion when the fate of an application put in by a foreign company depended on that specific interpretation.

It is found that there are serious grounds for questioning the wisdom of the policy of inviting foreign capital into the core sector. While it is readily conceded that the need for foreign technology would be greater in the areas demanding greater technical sophistication, it needs to be emphasised that the validity of this argument relates to foreign technology and not necessarily to foreign financial participation is permitted in the name of transfer of technology is open to question. The distinction between the two must not be allowed to get blurred. That would, as we have shown, have an effect counter to the principle that the commanding heights of the economy should be under the control of the state.

The inadequacy of the regulatory policies of the Government of India with particular reference to the MRTP Act and FERA has been studied at length. It has been found that the impact of the MRTPA on concentration of economic power has been negligible on account of various lacunae. For instance, the Act does not provide for an instrument which could examine the question of interconnection outside the country. Many MNCs operate in the country through more than one affiliate. Though these affiliates are interconnected through the parent MNC and are therefore non-competitive, they have avoided registration under the MRTP as interconnected undertakings.

The mechanisms by which foreign companies are able to exercise disproportionate control over economic activity through their control over management has been looked into. One mechanism for exercising such control is provided by clauses for specific rights in the Articles of

An examination has been made of (a) interlocking of directorships which reveals the association of directors of foreign companies with financial institutions apex business organisations, government of India and India big business houses and (b) foreign directors on these companies and their association with the parent company and its affiliates.

Drawbacks have been found in the Companies Act 1956 which sought to reduce the concentration of power in the hands of a small number of directors by limiting the number of directorships a person should hold to 20 in a year. It has been shown now real power continues in general cases to be exercised by directors appointed bby parent companies even though the share of equity held by it may have gone below forty per cent.

5. MNCs and the Drug Industry in India

The drug industry and the role of the drug MNCs, provides an illustrative case study of the political dimensions of MNC operations in India. The major lobby of drug MNCs in India is the Organisation of Pharmaceutical Producers of India (OPPI) established in 1965. Prior to that, the drug MNCs lobbied individually, or through the ASSOCHAM, in order to protect and to promote their interests. It has been revealed that, in the drug industry the lobbying efforts of drug MNCs seem to have been quite successful, in various major spheres.

Despite the recommendations of the two expert committees, and lobbying by smaller Indian producers, mainly organised in the Indian Drug Manufacturers Association (IDMA), the Government has generally minimised the restrictions on drug MNCs, and has generally interpreted existing regulations in favour of the foreign controlled drug companies. Even after the enactment and implementation of FERA, there is a clearly discernable trend of policies sympathetic to the drug MNCs. They have been allowed in major cases to retain majority foreign equity to diversify into low technology areas and to retain the use of their brand names. The official policy has also consistently permitted the FERA drug companies to regularise their excess production capacities. A large number of drugs banned in other countries continue to be produced

here as recommendations to ban the production of a number of harmful formulations have been whittled down after the sustained campaign by drug MNCs.

In 1956-58 the Soviet offer to build up public sector plants to dominate the drug industry was virtually rejected in the face of fierce lobbying by drug MNCs and virtually all private sector interests. The available evidence has been collected to bring out the instances of lobbying by drug MNCs.

Even after the New Drugs Policy (1978), the policy has not been to establish the leading role of the public sector. Instead a number of drugs earlier reserved for production in the public sector have been thrown open for the private sector. The earlier existing trend in drug production, that the public sector concentrated on in the production of the less profitable but basic bulk drugs whereas the drug MNCs concentrated on the manufacture of formulations based on these bulk drugs, has continued, despite numerous recommendations and policy statements to the contrary. Similarly, the public sector alone has invested substantially in R & D, with the drug MNCs consistently avoiding significant R & D investment which would reduce the necessity for imports.

6. Conclusion

Our study into various aspects of the functioning of MNCs in India throughout the post-Independence period, reveals that through their political activities, these international conglomerates have been able to substantially influence policies purportedly directed at regulating their activities and reducing their domination in vital areas of the Indian economy. The consequence of the political dimension of MNC operations in India, has been continued dependence of important industries on foreign private capital and foreign imports, in sharp contrast to repeated policy statements about self reliant development.

ANNEXURES

ANNEXURE 'A'

Illustrative List of Multinationals which Had Small Scale Units in India

S. No.	Name of the Multinational Company	Remarks
	(1)	(2)
1.	Avery Co. of (I) Ltd., Delhi	Foreign Subsidiary (1966)
2.	Britannia Biscuit Co. Ltd., Delhi	-do-
3.	E. Hill & Co., P. Ltd., Mirzapur.	-do-
4.	Tyresoles Concessionaires P. Ltd.,Delhi	-do-
5.	East India Distilleries & Sugar Factories Ltd., Kottayam	The company later became E.I.D. Parry (I) Ltd. Foreign Branch (1966)
6.	Getz Brothers & Co., Calcutta	Foreign Branch (1966)
7.	Minimax Ltd., Ranchi	-do-
8.	Monotype Corpn., Bangalore	-do-
9.	West's Patent Press Co. Ltd., Aligarh	-do-
10.	Cambridge Instruments (I) Ltd., Bombay	FERA
11.	Chelpark Co. Ltd., Madras	-do-
12.	Crompton Engg. Co. Ltd., Madras	-do-
13.	Eastern Scales P. Ltd, Calcutta	-do-
14.	Eastern Assam Tea Co. Ltd. (Group Workshop), Lakhimpur	-do-
15.	Fordham Pressing (I) Ltd., Bombay	-do-
16.	Hindustan Klockner Switchgear Ltd., Bombay	-do-
17.	Travancore Tea Estates Co. Ltd. (Peermade Foundry)	-do-
18.	Sharpedge Ltd., Delhi	Promoted by Hindustan Lever and Escorts.
19.	Bluemount Ceramic P. Ltd., Matham Palayam	Was registered under MRTPA GEC House
20.	Sankar Electricals P. Ltd., Madurai	-do-
21.	Pandiyan Press Ltd., Madurai	Was registered under MRTPA, Madura Coats House.
22.	A.L.A. Chemicals Ltd., Bombay	FERA
23.	C.E. Fulford (I) Ltd., Bombay	-do-
24.	Carter Wallace P. Ltd., Goa	-do-
25.	Ethnor Ltd., Bombay	Subsidiary of Johnson & Johnson Ltd. (a FERA Co.)
26.	Indian Schering Ltd., Bombay	FERA

S. No.	Name of the Multinational Company	Remarks
	(1)	(2)
27.	J.K. Helen Curtis Ltd., Bombay	-do-
28.	Nicholas of (I) Ltd., Bombay	-do-
29.	Roussel Pharmaceuticals Ltd.,Bombay	Subsidiary of Hoechst Pharmaceuticals Ltd. (a FERA Co.)
30.	Smith Kline & French (I) Ltd.,Bombay	FERA
31.	Whiffens (I) P. Ltd., Bombay	-do-
32.	Indian Transformers Ltd., Alwaye	Was registered under MRTPA, under GEC House
33.	Precision Tools India Ltd., Calcutta	Was registered under MRTPA, under Macneill Magor House
34.	Ascu Hickson Ltd., Calcutta	FERA
35.	Beclawat of (I) Ltd., Karamsad	-do-
36.	Shah Medical & Surgical Co. Ltd., Baroda	-do-

Note. Sl. No. 1 to 18 were listed in the FASII All India Directory and Hand Book of Small Industries, 1966 published by the Federation of Associations of Small Industries in India.

Sl. No. 19 to 21 were listed in the Directory of Small Scale Industrial Units in Tamil Nadu; Supplement to the Second Edition (From 1-1-64 to 31-12-67), 1969, published by the Director of Industries and Commerce, Tamil Nadu.

Sl. No. 22 to 31 were listed as small scale manufacturers who are members of Basic, Chemicals, Pharmaceuticals and Cosmetics Export Promotion Council in the Thapar's Indian Industrial Directory & Export & Import Directory of the World, 1980-81.

Sl. No. 32-33 were registered for government purchases being Small scale units. See Directory of Small Units Enlisted for Government Purchases, 1976, published by the National Small Industries Corporation Ltd.

Sl. No. 34 to 36 were registered for government purchases being small scale units. See Directory of Small Units Enlisted (Under Single Point Registration Scheme) for Government Purchases, 1980 published by the National Small Industries Corporation Ltd.

FERA in Col. 2 indicates that the company was one of the applicants which applied to the Ministry of Finance under the Foreign Exchange Regulation Act.

Source: IIPA, Corporate Information System.

ANNEXURE 'B'

STATEMENT ON FOREIGN INVESTMENTS IN INDIA

Constituent Assembly of India (Legislative) 6th April, 1949

The Honourable Shri Jawaharlal Nehru (Prime Minister and Leader of the House): By your leave, Sir, I would like to make a statement to the House. Some days ago my honourable colleague, the Minister for Industry and Supply, introduced a Bill before the House to provide for the development, regulation and control of certain industries. Sometime later today, I understand that he is going to make a motion to refer the Bill to a select committee.

Honourable Members will have noticed that no specific provision relating to participation of foreign capital in industries has been made in this Bill. We had thought at first that it would be necessary to make some specific provision, but we find on further examination that such regulation as is necessary can be secured through existing laws. The policy as regards participation of foreign capital has already been announced in broad terms in Government's resolution of the 6th April 1948. The stress on the need to regulate, in the national interest, the scope and manner of foreign capital arose from past association of foreign capital and control with foreign domination of the economy of the economy of the country. But circumstances today are quite different. The object of out regulation should therefore be the utilisation of foreign capital in a manner most advantageous to the country. Indian capital needs to be supplemented by foreign capital not only because our national savings will not be enough for the rapid development of the country on the scale we wish, but also because in many cases scientific, technical and industrial knowledge and capital equipment can best be secured along with foreign capital.

In this context, foreign investors would no doubt wish to have some clear indication of our policy on certain matters, like the repatriation of capital, the remittance of profits, and the treatment of foreign enterprise vis-a-vis Indian enterprise. I propose to make the policy of Government quite clear in this matter.

In the first place, I would like to state that Government would expect all undertakings, Indian or foreign to conform to the general requirements of their industrial policy. As regards existing foreign interests, Government do not intend to place any restrictions or impose any conditions which are not applicable to similar Indian enterprise. Government would also so frame their policy as to enable further foreign capital to be invested in India on terms and conditions that are mutually advantageous.

Secondly, foreign interests would be permitted to earn profits, subject only to regulations common to all. We do not foresee any difficulty in continuing the existing facilities for remittance of profits, and Government have no intention to place any restriction on withdrawal of foreign capital investments, but remittance facilities would naturally depend on foreign exchange considerations. If, however, any foreign concerns come to be compulsorily acquired, Government would provide reasonable for the remittance of proceeds.

Thirdly, if and when foreign enterprises are compulsorily acquired, compensation will be paid on a fair and equitable basis as already announced in Government's statement of policy.

Government have stated before that as a rule, the major interest in ownership and effective control of an undertaking should be in Indian hands. They have also stated that power will be taken to deal with exceptional cases in a manner calculated to serve the national interest. Obviously there can be no hard and fast rule in this matter. Government will not object to foreign capital having control of a concern for a limited period, if it is found to be in the national interest and each individual case will be dealt with on its merits. In the matter of employment of personnel, Government would not object to the employment of non-Indians in posts requiring technical skill and expriences, when Indians of requisite qualifications are not available, but they attach vital importance to the training and employment of Indians even for such posts in the quickest possible manner.

I should like to add a few words about British interests in India which naturally form the largest part of foreign investments in India. Although it is the policy of the government of India to encourage the

growth of Indian industry and commerce (including such services like Banking, Shipping and Insurance) to the best of their ability, there is and will still be considerable scope for the investment of British capital in India. These considerations will apply equally to other existing non-Indian interests. The Government of India have no desire to injure in any way British or other non-Indian interests in India and would gladly welcome their contribution in a construcive and co-operative role in the development of India's economy.

ANNEXURE 'C'

ASSOCHAM: ORIGINS AND ROLE

A major lobby and the oldest apex body of business in India, is the Associated Chambers of Commerce and Industry (ASSOCHAM) set up in 1920.

The ASSOCHAM was formed in 1920, through a federation of chambers of commerce dominated by British managing agency interest. Its formation, as a number of studies have noted, was a reaction to the Montagu Declaration of 1917 which promised an increasing devolution of power to the Indians. This promised Indianization of Government together with the growing mobilisation of the Indian industrial groups for political purposes, provided the necessary impetus for the British dominated chambers that included the Bengal, Bombay, Burma, Calicut, Ceylon, Chittagong, Cochin, Coconada, Karachi, Madras, Narayanganj, Punjab, Tellicherry, Tuticorin and the Upper India Chambers of Commerce, to federate into the ASSOCHAM. (Kochanek, 1974, Chapter VI; Ray, 1979,) The chamber, therefore, included chambers for Ceylon and Burma. The Ceylon Chamber resigned from membership in 1932 and the Burma Chamber subsequently. (Sabade and Namjoshi, 1977)

From its inception, the ASSOCHAM was dominated by the Bengal Chamber of Commerce, and in particular five managing agency firms based in Calcutta. These firms : Mackinnon and Mackenzie, Andrew Yule, Bird, Jardine Henderson and Gillanders Arbuthnot, dominated, as Kochanek has shown, the presidency of the Bengal Chamber and of ASSOCHAM. (See Table 1 below).

TABLE 1

Source of Recreitment of Presidents of the Bengal Chamber of Commerce and Industry (1853-1967) and ASSOCHAM (1920-1967)

Firm	Bengal Chamber 1953-1967	ASSOCHAM Pre-Independence 1920-1946	ASSOCHAM Post-Independence 1947-1967	ASSOCHAM Total 1920-1967
(1)	(2)	(3)	(4)	(5)
Mackinnon & Mackenzie	22	9	1	10
Andrew Yule	11	2	7	9
Bird & Co.	10	5	3	8
Jardine Henderson	13	1	4	5
Gillanders Arbuthnot	6	2	1	3
Other Firms	64*a*	8	8	16*b*
	128*c*	27	24	51*c*

Source: Stanley A. Kochanek, "Business & Politics in India," Berkely, 1974, p.123.

a. During this period, only 32 firms elected one of their leaders president of the Bengal Chamber.

b. During this period, only 17 firms elected one of their leaders president of ASSOCHAM.

c. On several occasions, the Bengal Chamber and Assocham had more than one president during a calendar year because of deaths, regisnations or departures from India.

In the pre-Independence period, the Bengal Chamber was extremely influential, and was often referred to by the nationalist press as the power that really ruled India (Ray,1979) This Chamber also provided the ASSOCHAM its office and its secretariat. Although in the early years, the posts of the office-bearers were rotated among the different chambers, but since 1929, the Bengal Chamber continued to nominate the President and the Secretary. The pattern of domination of ASSOCHAM by the Bengal Chamber, and within the latter body by the top 5 managing agency groups persisted throughout the pre-Independence period and until the early sixties.

Indian business interests treated ASSOCHAM as a lobby of foreign, mainly British, capital and, in fact, the creation of the first Indian apex business organisation: the Federation of Indian Chambers of Commerce and Industry (FICCI), was a reaction to the formation of ASSOCHAM. (Ibid., Kochanek, 1974) Until very recently, most studies have also treated this chamber as a lobby of foreign private capital, as contrasted to the FICCI which is viewed as a lobby of Indian big business. Kochanek, in his authoritative study characterises ASSOCHAM as, "the primary organised means through which foreign capitalin India formulates its demands develops a response to policy initiatives of the government of India, and raises questions concerning the detailed implementation of government policy" (Kochanek, 1974) while it is certainly correct to identify ASSOCHAM as a lobby of foreign capital, it is evident that today the chamber is no longer an organisation of foreign capital alone.

The Indianization of ASSOCHAM

The process of indianization of ASSOCHAM may be traced back at least to the 1960s. The Bengal Chamber that dominated ASSOCHAM continued to be controlled by four large managing agency houses of Calcutta, of which Andrew Yule and Jardine Henderson were of particular importance, though Bird and Gillanders Arbuthnot were still "quite active and powerful". (Ibid.) Because these managing agencies had the bulk of their interests in the jute, tea and coal industries, the ASSOCHAM policy was apparently to concentrate on the problems of these industries. Even in the Bengal chamber however, a number of changes had

managing agency houses and formerly foreign controlled companies to Indian enterpreneurs, (especially the Calcutta marwaris), the growing Indianization of capital and management, and the rapid growth of large MNC affiliates like ICI, Metal box, Union Carbide and Guest, Keen and Williams, all led to major changes in the composition of the Bengal Chamber. This reflected in the change in membership of the executive committee, where the former monopoly of British nationals gave "way to gradual Indianization and the inclusion of American interests."(Ibid.)

The extent of Indianization was much greater in the other major chamber in ASSOCHAM", the Bombay Chamber of Commerce. This chamber even in the pre-Independence period had a significant Indian representation. Some important Bombay industrialists, notably the Tatas, Mafatlals and the Khataus, had because of political and other differences with the FICCI leadership, chosen to stay out of FICCI, and had instead coexisted with British interests in the Bombay chamber of commerce. (Ibid. Ray, 1979, Chency, 1983)

In the post-independence period, many wholly Indian owned companies joined the Bombay chamber. Simultaneously, large number of MNC affiliates, e.g. in the pharmaceutical, engineering and consumer goods industries, became members of the chamber. (Sabade and Namjoshi, 1977 Bombay Chamber of Commerce and industry, 1976) Its membership increased correspondingly from 356 in 1951 to 535 in 1961, whereas during the same period, that of the Bengal chamber had actually declined, from 306 to 258.(Ibid.) Indians began to play an increasingly imporant role in the executive of the Bombay Chamber, and the first Indian president was elected in 1959. According to Kochanek, "In the early 1960s a 'ginger group' of Indian managers faom the Bombay Chamber began demanding on end of monopoly control of the presidency of original concept of rotating the presidency and the restoration of a truly associated chamber" (Kochahak,)

The Bengal Chamber sought to counter the arguments raised by the Bombay contingent, by arguing that unless the president come from where the secretariat was located (i.e. Calcutta) there would be a lack of coordination in the ASSOCHAM's activities. This the Bombay-based members rebutted by offering to shift the ASSOCHAM secretariat to

Bombay. After the issue had been debated in conclusively for a few years, the Bombay Chamber threatened to secede unless its right to nominate presidents of the apex body was recognised. In support of their demand, the Bombay representatives argued that the Indian government itself was unhappy with the situation in which Europeans continued to represent ASSOCHAM (Ibid.) This argument further strengthened the Bombay contention that the ending of the Bengal Chamber stranglehold was necessary to increase the effectiveness of ASSOCHAM in lobbying for demands of this constituents.

The Bombay Chamber's demand was conceeded at a general meeting held in February 1965, with the provison that the Chamber pay a much larger share of the running expenses of ASSOCHAM. In 1962, the Bombay Chamber's share was only Rs.3,200 of the ASSOCHAM budget of Rs.1,50,000 (Ibid.) In 1968, on the basis of the nomination by the Bombay chamber N.M. Wagle, was elected as president of ASSOCHAM. (Wagle was also a director in several foreign controlled concerns in India. See Chapter VII). Wagle was not only the first Indian to hold the post, he was also the Bombay Chamber's first nominee since 1928 and the first non-Calcutta president in three decades. (Kochanek, 1974)

This process of Indianization also terminated the old process of selection of the leadership of ASSOCHAM. Kochanek reports, that under the earlier selection procedure, representatives of the British High Commission in Calcutta, the Chairman of the India Burma Pakistan Association, and the top British managers in Calcutta were consulted. A tradition had developed that senior British businessmen, generally persons who had spent their entire career in India, were selected as presidents of ASSOCHAM, and were also awarded a kninghthood. (Ibid.) The old system of domination by British interests of ASSOCHAM, therefore ended with election of Wagle, and the re-institution of the principle of rotation for election to the presidency.

Essential to any process of Indianization, was the control over the ASSOCHAM secretariat, which under the old system was provided by the Bengal Chamber. In 1972, the office of the ASSOCHAM was shifted from

Calcutta to Delhi, and a separate secretariat was set up. This move further reduced the importance of the Bengal Chamber in the new set-up.

The Current Character of ASSOCHAM

ASSOCHAM is no longer an agency of foreign capital alone. But it would be accurate to state, to quote Sabade and Namjoshi that, "Membership of the ASSOCHAM compaises professionally managed large firms with mostly foreign collaborations and therefore it has a more homogenous membership (than FICCI)" (Sabade and Namjoshi, 1977) There is however, a substantial overlap in the membership of the two major busines apex chambers: ASSOCHAM and FICCI, though the latter's membership is much larger. In 1980-81, ASSOCHAM represented 20 business chambers and associations, and 170 associate members. In 1980, FICCI had 478 chambers and associations as ordinary members and 1186 associate members (ASSOCHAM, Sixty Annual Report, 1981, FICCI, 54th Annual Report 1980). In 1980, 6 chambers and 3 associations were members of both ASSOCHAM and FICCI, i.e. 9 of the 20 chamber and association members in ASSOCHAM were also members of FICCI. Generally speaking however, the MNC affiliates and the erstwhile European chambers and their affiliated foreign-managed concerns, remains, as members of the ASSOCHAM, and have not deberted that body of FICCI.(Sabade and Namjoshi, 1977)

ASSOCHAM : LOBBYING AS DIPLOMACY

A characteristic feature of the lobbying by ASSOCHAM is, as a number of observers have noted, one of "quiet diplomacy." In sharp contrast of FICCI, which is vocal and publicly critical of the government's economic policies, the ASSOCHAM generally avoids controversy and maintains a low public profile. However, since the Indianization of the chamber with the rise of leadership of Indian entrepreneurs as Presidents, the ASSOCHAM has come more into the public eye as it has sought more publicity than before. Its annual meetings, seminars, discussions and other activities are now publicised more than during the days when it functioned as a virtual annexe of the British-controlled managing agency houses.

ASSOCHAM in recent years has also sought to develop a professional

secretariat, to perform functions and provide services as varied as that provided by FICCI. The "ASSOCHAM Bulletin" a monthly which is in its eighth year of publication, provides as much detailed information on the economy together with specific details regarding tenders and trade enquiries, as does the FICCI's monthly "Economic Trends." In addition the chamber publishes the "ASSOCHAM Parliamentary Digest" every week when the Parliament is in session, which reproduces the government answers to important questions on commerce and industry. The coverage in this digest is much more extensive than that provided by any other chamber including FICCI. Though ASSOCHAM does not maintain a research wing like FICCI's Economic and Scientific Research Foundation (ESRF), it commissions studies by other organisations like the Tata Economic Consultancy Services, etc. Because of these relatively recent changes, the ASSOCHAM secretariat, now based in Delhi, is better placed, not only in providing services to its members, but also in its lobbying efforts.

LOBBYING : CHANNELS OF ACCESS & INFLUENCE

There are various points in the political process at which pressure groups can bring influence to bear : political parties and their leadership, the political leadership (of the ruling party), the legislatures, the bureaucracy and the various agencies that shape public opinion, particularly the mass media (Kochanek, 1974). Groups normally concentrate their efforts at lobbying to those level of decision-making that are expected to produce the most effective results. In the case of ASSOCHAM, the lobbying efforts have been more complicated, and hence sophisticated, because of the loss of certain pre-Independence advantages. Under the colonial raj, as we have noted earlier, ASSOCHAM wielded very substantial influence over government policy. It was represented in the central legislature and was intimately involved in the formulation and implementation of official policy. (Chenoy, 1983) With the advent of independence and the new Constitution, direct functional representation in parliament has been abolished together with the traditional advantages that ASSOCHAM enjoyed with the colonial government.

In the new environment, with the elimination of its erstwhile

advantages; ASSOCHAM and its constituent bodies and other lobbies of foreign private capital (e.g. specialised associations like the Organisation of Pharmaceutical Producers of India), have had to resort to new forms and techniques of lobbying.

In independent India even after the abolition of functional representation for business interests in Parliament, business representation in various government bodies has not only continued but increased. There are a large number of consultative and advisory bodies on which business interests, in particular ASSOCHAM and FICCI, as well as their members are represented. These hundreds of commission include the Central Advisory Council of Industries (CACI), the Board of Trade, the Import Advisory Council, the Export Advisory Council, the Customs and Central Excise Advisory Council, the Direct Taxes Advisory Council, the Advisory Committee on Capital Issues, etc. Business representatives are also included in the development councils which are advisory committee for various industries, which among other functions, participated in the discussions with the Planning Commission, during which the plan targets for various industries were finalised.

The most important of these advisory bodies is the Central Advisory Council of Industries (CACI) which was created under the Industries (Development and Regulation) Act, 1951, which stipulated that the CACI must be consulted when making any rules under the Industries Act. Two vital sub-committees of the CACI are the (i) standing committee which meets to consider major problems of economic, particularly industrial development, and (ii) the licensing reviewing sub-committee, which examines the cases of all licensing applications and the action taken on them. The largest component of the non-official members of the CACI, are the business representatives, who are nominated to its membership in their capacities as representatives of various apex business organisations and employers associations. The representatives of consumer organisations are often also individuals with business connections. The reviewing sub-committee of the CACI is a vital body, as it monitors the operation of the industrial licensing system. The substantial representation of business interests, in particular those affiliated to ASSOCHAM or to its constituent bodies, enables them to

intervene in the process of the regulation of industry, which would be on obvious focus of their activity.

Business lobbies, including ASSOCHAM are able to intervene more directly also with the legislature, including the Parliament. ASSOCHAM every year reports on its representatives meetings with various committees of Parliament e.g. the Estimates Committee, various select committees examining bills to be considerable informal lobbying. Direct business representation in Parliament has been limited. But both FICCI and ASSOCHAM maintain liaison officers apart from other staff members in Delhi, all of whom function as lobbyists with government officials and MPs. More importantly the individual constituents of ASSOCHAM, both the specialised associations and the larger firms, themselves lobby with legislators. In particular, lobbyists representing the larger industrial groups often double as journalists or public relations men, with the second activity lending same legitimacy to the first.

More directly the ASSOCHAM and its constituents (like other chambers) maintain a steady flow of material; particularly statements, sympathetic studies and press reports, memoranda, etc. to local influentials, that includes all those perceived by the chamber to be of importance in influencing economic and other relevant policies. The chamber also organises seminars and discussions on topics of is interest, where prominent specialists in the field are invited. For instance, ASSOCHAM has organised for the last frew years a "Workshop on a Mid-year Review of the Economy," in Delhi. Prof. Malcolm Adiseshiah, a prominent economist and a nominated Rajya Sabha M.P., has been presenting the basic paper for discussion, in which senior government officials, industrialists, journalists and other eonomists participate.(ASSOCHAM, 1981)

CONSTRAINTS ON LOBBYING : AN ANTI-BUSINESS POLITICAL CULTURE

It is often claimed, both by businessmen and those who study the Indian situation, that there is considerable public hostility towards business, that substantially limits business influence and restricts its lobbying activities. According to Kochanek, for example, the anti-business political culture has greatly limited business influence,

leaving business "completely defenseless when the political leadership can state on issue in terms of the vested interests or can pit the haves against the have-nots. (Kochanek, 1974) Thus, it is claimed, business has never succeeded in modifying, much less stopping, any major re-distributive policy in India.

This entire argument is open to question. In the first place the mass media, in particular the privately-owned press generally propagates pro-business views. This is largely because the larger newspapers, both in English and in the Indian languages, are in the main, owned and controlled by business houses, in particular the large industrial houses. The government-controlled media e.g. Doordarshan (T.V.) and All India Radio, is clearly not anti-business. It is difficult to see therefore how the alleged anti-business political culture is propagated, especially as little evidence of its existence is provided. While it is certainly the case that on occasion, the rhetoric indulged in by the ruling party has taken on anti-business edge, the overall tenor of policy speeches over that period has never been anti-business. For instance, as Kidron has shown, even during the period of the Congress Party's famous "Swing Left" in the mid-fifties, (of which the high watermark was the January 1955 Avadi Resolution), re-assurances weare continually made to business circles, lest the latter be alarmed. (Kidron, 1965)

It is however true that the type of aggressive lobbying considered quite acceptable in the West, does not exist in India; probably because the concerned business organisations consider it counterproductive in view of the potential public debate and criticism that may arise. As we have stated above, ASSOCHAM in contrast to FICCI, prefers an even more low-key style of lobbying. It attempts to influence official policy, are more private rather than public. It does not follow however that these are less effective.

Indeed, in the case of contemporary India, it could perhaps be argued that the 'political culture,' or at least the attitudes of senior political leaders, bureaucrats and even the judiciary, are generally pro-business rather than the other way around. In the case of senior bureaucrats, as we have seen in our study of directorships, the

possibility of future employment in the large private sector concerns, must be considered an enducement leading to favourable policy decisions. Our review of the development of the policy towards foreign capital has revealed a number of instances where the attitude of decision-making were clearly pro-MNc, despite countervailing pressures.

It is of course, not contended that favourable policy decisions or pro-MNC shifts in policy or the implementation of policy, are a direct consequence of lobbying by ASSOCHAM, or by one of its constituents. As we have stated in our policy review, since 1945-55, the differences between ASSOCHAM and FICCI, about the role of foreign capital have narrowed very considerably and have practically converged. (Kidron, 1965) Thus, in matters effecting big business in general and MNc affiliates in particular, ASSOCHAM and FICCI have on numerous occasions worked in unison. For instance both ASSOCHAM and FICCI in recent years have been arguing for a liberalisation of FERA regulations. Both have demanded that the areas of industrial activity exclusively reserved for the public sector and the small scale sector should be significantly reduced. Both have urged the automatic expansion of capacity without fresh licensing. Similarly both ASSOCHAM and FICCI, have sought a liberalisation of the MRTP Act. (see the Annual Reports of ASSOCHAM and FICCI, for the recent years)

In this situation, marked by the increased collaboration between foreign private capital and indigenous private capital, and between ASSOCHAM and FICCI, Kidron's warning that this dual collaboration in "the general interests of private capital will weaken the state sector in time.(Kidron, 1965) would appear to have prophetic, in the light of recent trends, especially from 1980 onwards.

ANNEXURE 'D'

G.O.I. PRESS NOTE OF MAY 8, 1961.

The Government of India have been engaged in a review the procedures relating to the consideration of the applications that need to be made by parties interested in establishing industrial units in the country. Following the review, several of these procedures have been stream lined and simplified.

It has been felt that, in order to avoid delay resulting from separate and successive consideration by different authorities of various aspects of major Third Plan projects in the private sector, such as industries Act licensing, Capital issues, terms of foreign collaboration, import licencing for capital goods etc, it would be desirable to have a unified agency in a position to undertake coordinated consideration of all aspects at the same time, in consultation with the authorites concerned. A senior officer has accordingly been placed on special duty in the Commerce and industry ministry for this purpose.

Some of the important Third Plan projects will involve foreign collaboration or foreign participation in capital. The need to give prospective foreign investors interested in participating in important Third Plan schemes prompt and reliable guidance is obvious. Such guidance will now be available from the officer on special duty and his staff, who will primarily be responsible for speedly processing important collaboration projects, involving large foreign investment or technical know how and skills of special significance.

An illustrative list of industries, in which foreign capital would ordinarily be welcome, has also been drawn up. This list takes into account the gaps in capacity, which exist presently in relation to Plan targets. This list which is only illustrative, will be subject to revision from time to time.

The industries listed are:

Iron and Steel structural, Iron and Steel castings and foreigns, Iron and Steel pipes, special stels, Non-ferrous metals and alloys,

Boilers and Steam generating plants, equipment for transmission and distribution of electricity. Furnaces, Marine diesel engines, Industrial machiery including major items of specialised equipment used in specific industries and generalisation of machiery used in several industries such as equipment required for various unit processes. Ball, roller and taper bearing, Speed reduction units, Machine tools, Tractor, earth moving and construction machinery, Plastics, Industrial and Scientific instruments, Fertilisers, Organic Chemicala, Agricultural Chemicals such as insecticides, Dyestuffs and drugs, including the production of basic intermediates, Newsprint and pulp.

This list, as has been emphasised is more illustrative rather than exhaustive, Collaboration Schemes falling outside this list will also be considered on merits.

The fields in which foreign capital is ordinarily not needed have also been listed. This list includes: Banking, Insurance. Trading and Commercial activities, Plantations.

Private capital, foreign or Indian, as a rule, is not being allowed in the industries listed in Schedule 'A' of the Industrial Policy Resolution of 1956. In special circumstancs, however, exceptions may be made where, after full consideration, this is found to be in the public interest.

Basically, the policy regarding foreign investments would be to attract private foreign capital in those fields in which the country needs to develop in pursuance of the Plan targets. While government have been generally encouraging the investment of private foreign capital in the country, it is to be recognised that this has necessarily to be on a selective basis.

If any project is approved for development in the private sector and, if imported plant and machinery are required, foreign capital investment would ordinarily be welcome as a form of financing the project.

While Indian majority holding would be generally welcome, the ratio of foreign capital to Indian capital in Joint-venture enterprises, the extent of foreign shareholding that is to be permitted in any case etc,

have necessarily to be judged on merits. This judgement is made often evaluting the technical skills offered and after weighing the requirements of foreign exchange for the puchase of equipment from abroad and the desire of Indian collaborators to play an effective part in the company's management.

Importance is also attached to the arrangements proposed for the training of Indian technicans and executives in all aspects of production and management. Where a phased programme of manufacture is proposed, emphasis is placed on the rapid build up of indigenous production. Long-term assembling and formulations and productions based on imported intermediate products have to be avoided Special encouragement is given to schemes which involve expansion of exports on an economic basis with or without the assistance of the foreign collaborators' overseas marketing organisations.

Foreign investors have found their colaboration arrangements of considerabl economic value from the point of view of sound long term investments. A happy corollary to the situation has been that, though existing regulations do not impose any restrictions on the repatriation of foreign capital investments in India, including accumulated profits and appreciated value of assets subject to the payment of all taxes due, foreign investors have found it to their advantage to retain their investments in the country undisturbed and even pool back into their enterprisesa substantial proportion of their remittable profits and dividends. Ministry of Commerce & Industry, May 8, 1961.

ANNEXURE 'E'

LIST OF U.S. COMPANIES WHICH RECEIVED LOANS OUT OF PL 480 FUNDS

1.	Agricultural Association Ltd., New Delhi (Dekalb Agricultural Association Inc. Dekalb, Illinois) (high-hield seeds)	Rs.2,800,000
2.	American Universall Electric (India) Ltd., Faridabad, Haryana, (Universal Electric Co., Owosso, Michigan) (Fractional-horsepower electric motors)	2,100,000
3.	Arbor Acres Farm India Pvt. Ltd., Talegaon, Maharashtra (Arbor Acres Farm Inc., Glastonbury, conecticut) (Poultry breeding)	1,250,000
4.	Bharat Steel tubes Ltd., Ganaur, Haryana (Abbey Etna Machine Co. Perrysburg, Ohio (Steel tubes)	2,500,000
5.	Borosil glass Works Ltd., Andheri, Maharashtra (Corning glass Works, New Work) (Glassware)	7,618,000
6.	Chemicals & Plastics India Ltd., Mettur, T. Nadu (B.F. goodrich Chemicals Co. cleveland, Ohio)., (Polyvinyl Chloride Plastics)	3,261,000
7.	Corn Products India Pvt. Ltd., Bombay (Corn Products Co., New York) (Starch, Gluecose dehydrated food)	2,388,000
8.	Corosmandel Fertilizers Ltd., Visakhapatnam, Andhra Pradesh (California Chemical Co. San Francisco, and International Minerals & Chemicals Corp., Shokie, Illinois) (Fertilizers)	122,927,100
9.	Cutler-Hammer India Ltd., Calcutta Cutler-Hammer Inc., Milwaukee, Sisconsin) (electrical relays, thermostats)	3,000,000
10.	Cynamid India Ltd., Bombay (American Cynamid Co., New York (antibioties).	2,500,000
11.	East India Hotels Ltd., New Delhi (International Hotels Corp. New York) Construction of hotel in New Delhi.	7,619,000
12.	Elpro International Ltd., Bombay (General Electric, New York (Lighting arresters, X-Ray equipment, magnets)	4,000,000

13.	Everest Refrigerants Ltd., Bombay (Technical enterprises Inc., New York) (refrigerant gases and aerosol dispensers)	6,000,000
14.	Ex-Cello-O (India) Pvt. Ltd., Bombay, Ex-Cello-O Corpn., detroit, Michigan) (Machine tool parts)	2,000,000
15.	Ferro Coating & Colours Ltd., Calcutta, (Ferro Corp., Cleveland Ohio) (Colours, Pigments, and fritted elements for the fertilizer industry)	2,500,000
16.	Frick India Ltd., New Delhi, Frick Co., Waynesboro, Pennsylvania) (refrigeration equipment)	2,500,000
17.	Gabriel India Pvt. Ltd., Mulund, Bombay, (Gabriel Co., Cleveland, Ohio) (Shock absorbers)	1,900,000
18.	Goodyear Tyre & Rubber Co., of India Ltd., Ballabgarh, Haryana (Goodyear Tyre & Rubber Co., Akron, Ohio) (Rubber products)	37,500,000
19.	Graphite India Ltd., Calcutta (Great Lakes Carbon corp., New York (Graphite electrodes anodes and carbon products)	10,000,000
20.	Harig India Pvt., Ghaziabad, U.P. (Harig Mfg. Corp., Chicago) Toos, dies, gauges)	1,485,000
21.	Herdillia Chemicals Ltd., Thana, Maharashtra (Dercules Powder Co., Inc., Wilmington, Delawarel) (heavy organic chemicals)	26,484,000
22.	Hindustan Aluminium Ltd., Renukoot, U.P. (Kaiser Aluminium & Chemicals Corp., Oakland, California (Aluminium)	50,000,000
23.	I.A. & I.C.Pvt. Ltd., Bombay (Lapic Inc. Philadelphia (Sulphur-grinding plant)	500,000
24.	Indabrator Ltd., Bombay (Wheelabrator Corp., Mishawaka, Indiana) (air blast and shot blast equipment and dust collectors)	1,428,000
25.	Indofil Chemicals Ltd., Bombay (Rohm & Hass Co., Inc. Philadelphia) (Fungicides and Plasticizers)	2,975,000
26.	Kirloskar-Cummins Ltd., Poona, Maharashtra (Cummins Engine Co., Columbus Indiana) (engines)	12,500,000

27.	Kumburdhubi Fireclay & Silica Works Ltd., Calcutta (A.P. Green Refractories Co., Mexico, Missouri) (Specialised refractories)	12,000,000
28.	Lal-Roe Measuring Tools Pvt., Ltd., Bombay, (Justus Roe & Sons Inc., New York), (Steel measuring tapes)	1,300,000
29.	Lube India Ltd., Bombay (Esso Standard Oil of New Jersey) Petroleum products)	64,345,000
30.	Madras Rubber Factory Ltd., Madras (Mansfield Tyre & Rubber Co., Mansfield), (Ohio) (Rubber tyresl)	15,000,000
31.	Mandya Paper Mills Ltd., Belagula, Mysore (Parsons & Whitemore, New York (Paper)	11,700,000
32.	McNally-Bird Engineering Co., Ltd., Kumaradhubi, Bihar (McNally-Pittsburg Mfg. Co., Pittsburg. Kansas) (Coal Washeries and allied equipment)	10,000,000
33.	Modipon Ltd., Modinagar, UP. (Rohm & Hass Co., Inc., Philadelphia) (nylon filament yarn)	18,200,000
34.	Mysore Cement Ltd., Ammasandra, Mysore, (Kaiser Industries Corp., Oakland, (California) (cement)	36,061,000
35.	Mysore Lamp Works Ltd., Bangalore, (General Electric, New York) (Electric Lighting Equipment)	3,000,000
36.	Napco Bevel Gear of India Ltd., Faridabad, Haryana (Napco Industries Inc., Mineapolis, Minesota) (gears, Joints, and allied pats)	8,000,000
37.	Otis Elevator of India Ltd., Bombay (Otis Elevator Co., New York (Elevators)	7,000,000
38.	Pibco Ltd., Durgapur, West Bengal (Johns-Manville Corp., New York) insulatating Materials)	
39.	Precision Bearings India Ltd., Baroda, Gujarat (Norma-Hoffman Bearings Corp., Stanford, Connecticut) (ball and Cylindrical bearings)	4,500,00
40.	Premier Tyres Ltd., Kalamaseri, Kerala (Dayton Rubber Co., Dayton. Ohio) (Rubber Tyres)	3,000,000
41.	Ramon Engineering Works Ltd., Calcutta (World Investments Inc. Wichita Kansas (Spiral Welded Pipes)	15,800,000

42.	Renusagar Power Co., Ltd., Renukoot, UP (Kesar Aluminium & Chemical Corp., Oakland, California) (Thermal Power Stn.,)	48,146,000
43.	Richardson Hindustan Ltd., Bombay (Richardson Merell Inc., New York) (Pharmaceuticals)	6,250,000
44.	Rockwell India Ltd., Udhna, Gujarat (Rockwell Mfg. Co. Pittsburgh) (Power Tools)	1,690,000
45.	Searle (India) Ltd. Bombay (G.D. Searle & Co., Chicago (Oral Contraceptives and other drugs)	8,000,000
46.	Semiconductors Ltd., Bombay, (Raytheon Co. Inc., Lexington, (Massachusetts) (Transitors & Radios)	1,350,000
47.	Seshasayee Paper A& Board Ltd., Erode T. Nadu (Parsons & Whittemore, New York) (Bagasse pulp and paper)	20,000,000
48.	Shama Forge Co. Ltd., Bhopal Madhya Pradesh (Kropp Forge Co., Chicago) (Steel Forgins)	4,750,000
49.	Shavo-Norgren (India) Pvt. Ltd., Bombay (C.A. Norgren Co., Littleton, Colorado) (Pressure Regulators, Air Filters, and Air Lubricators)	800,00
50.	Sylvania & Laxman Ltd., New Delhi (Sylvania International, New York (Fluorescent Tubes and Mercury-Vapour Lamps)	5,000,000
51.	Synbiotics Ltd., Ahmedabad, Gujarat (Olin Mathieson International, New York)	13,440,000
52.	Synthetics & Chemicals Ltd., Bareilly, UP (Firestone Tyre & Rubber Co. Akron, Ohio) (Synthetic Rubber)	65,000,000
53.	Taylor Instrument Co., India Ltd., Ballabgarh, Haryan (Taylor Instrument Co. Inc., Rochester, New York (Process Control Instruments)	1,500,000
54.	Tractor engineers Ltd., Bombay, (Caterpillar Overseas Inc., Peoria. Illinois) (Spare Parts for Tractors)	6,000,000
55.	Union Carbon India Ltd., Bombay (United Carbon Co., Ashland, Kentucky) (Carbon Black)	20,101,000
56.	Union Carbide (India) Ltd., Calcutta (Union Carbide Corp., New York) (Chemicals and Plastics)	21,600,000

57.	Vazir Glass works. Ltd., Bombay (Wheaton Glass Co. Millvillle, New Jersey) (Glass Manufacturing)	2,500,000
58.	Vickers Sperry of India Ltd., Bombay (Sperry Rand Corp., New York) (Hydraulic Equipment and Accessories)	2,000,000
59.	Victor Gasket India (Pvt) Ltd., Mulund, Bombay, (Victor Mfg. & Gasket Co., Chicago) (Gaskets)	750,000
60.	Warner-Hindustan Ltd. Bombay (Warner-Lambert Pharmaceutical Co., Morris Plains, New Jersey) (Pharmaceuticals & Chemicals)	8,750,000
61.	Wyeth Laboratories Pvt. Bombay, (American Home Products Corp., New York) (Steroid Compounds and Hormones)	1,700,000
62.	Wyman-Gordon Ltd., Bombay (Wyman-Gordon Co., Worcester, Massachusetts) (Precision Forgings)	5.500,000
63.	York India Ltd., Faridabad, Haryana (Borg-Warner Corp., Chicago) (Air-Conditioning and Refrigeration Equipment)	1,500,000
64.	Zuari Agro-Chemicals Ltd., Bombay, (U.S. Steel Corp., Pittsburgh) (Fertilizers)	189,600,000
	Total	969,568,000

Source: United States Information Service, Fact Sheet: United States Economic Assistance to India June 1951 --- January 1970, New Delhi, 1970, pp.31-35.

ANNEXURE 'F'

Congress Working Committes Resolution on the 10 - point programme in 1967

1. The Election Manifesto mentioned: "It is necessary to bring most of the banking institutions under social control in order to serve the cause of economic growth and fulfil our social purposes more effectively and to make credit available to the producer in all fields where it is needed". The committee requests the government to take steps to implement this programme.

2. A scheme should be worked out to bring under the public sector the general insurance.

3. The Congress Working Committee is of the view that the export and import trade should be progressively undertaken through state agencies. The government was requested to undertake a commodity wise examination and formulate a phased programme to this end.

4. A national policy of public distribution of food-grains particularly to the vulnerable section of the community should be worked out and for this purpose the Food Corporation of India and cooperative agencies should be utilised to the maximum extent.

5. Consumer cooperatives should be organised to cover urban and rural areas for the supply of the more essential commodities to the community at fair prices.

To make this distribution effective processing and manufacturing industries in the state and cooperative sector should be established on an extensive scale.

6. The Congress Working Committee welcomes the decision of the government to implement the monopolies commission report and hopes effective steps would be taken to curb monopolies and concentration of economic power.

7. The Congress Working Committee is of the opinion that positive steps should be taken towards the provision of minimum needs to the entire community. As a first step, the government should promulgate a

socialist charter for children which would ensure the provision of high protein food to the children and such other amenities as could be organised and to work out a phased programme for implementation.

8. The pattern of conspicuous consumption and waste display which increasingly characterises some of the urban areas is out of place in a socialist society. They also constitute a drain on the resources available to the community for productive investment. There is thus compelling need to impose imitations on urban income and property. Concrete steps should, therefore, be taken for placing restrictions on individual holdings of urban land for preventing racketeering in land in urban areas.

9. The Committee desires that a plan of a rural works programme which would give opportunities for employment especially to the landless and at the same time help to create certain overheads in agriculture such as agro-industries, reclamation of land, soil conservation, affortation, minor irrigation, feeder roads, cattle development and other programmes of areas development should be formulated to be implemented.

Laws for tendancy reforms have been enacted in many states. It is obvious that the land reforms have in some respects not been implemented effectively. The implementation should improve. Credit should be made available to the agricultural labour against personal security or assets that are to be created. Minimum wage legislation for agricultural labour should be implemented more effectively.

Drinking water should be provided in all rural areas by a national programme of wells, conservation of water and utilisation of scientific methods.

10. The privileges, other than privy purses enjoyed by the ex-rulers, are incongruous to the concept and practice of democracy. The working committee is of the view that the Government should examine it and take steps to remove them".

ANNEXURE 'G'

PRESS NOTE ISSUED BY THE GOVERNMENT OF INDIA ON 20 JULY 1968

For some time past the Government of India have been reviewing the policy relating to foreign private investments and foreign technical collaboration. Since after careful and detailed examination of all aspects of these questions they have reached the conclusion that no significantchange in the broad policy followed on these subjects in the past few years is called for, they have decided that it is not necessary to issue any formal resolution on the subject. The Government, however, consider that a number of practical steps can be taken to improve the position in order to secure two important objectives with which they have in view, viz. (a) that there should be no undue delay in the disposal of applications should be finally disposed of within three months, and (b) that the intending collaborators should know as clearly as possible what are the procedures and facilities available for foreign investment so that proposals are made in such a manner that their early disposal may be practicable. For this purpose, Government's decisions in respect of various industies will have to be more specifically publicised.

With the above objectives in mind, Government have decided that there should be a single agency within Government, to be called the Foreign Investment Board, which will be responsible for all matters relating to foreign private investments and collaborations. The Chairman of the Board will be a Secretary in the Finance Ministry and its other members will be the Secretaries of the Economic Ministries principally concerned with foreign investments and collaborations. The Secretary of the Planning Commission, the Director General, Technical Development, will also be members of the Board. All cases of foreign investment and collaboration will fall within the jurisdiction of the Board. In order to ensure speedy disposal of cases, the Board. In order to ensure speedy disposal of cases, the Board will delegate adequate authority to the administrative Ministries who will be primaily responsible for the prompt disposal of applications falling within their particular field in accordance wth certain specific guidelines which are being laid down for the purpose, but even where such responsibility

rests with the administrative Ministry concerned, the Board will have supervisory functions in respect of the disposal of all applications and may call for and deal with any individual application in the Board itself. For the sake of centralised information and for adequate supervision by the Board, as in the case of applications relating to industrial licensing, all applications for foreign investment/collaboration will be received centrally, with an adequate number of copies, in the Secretariat of the Foreign Investment Board, which will be located in the Department of Industrial Development of the Ministry of Industrial Development ad Company Affairs. The Secretariat will maintain close liaison with the various Ministries for watching the disposal of these applications. It is intended that the Board should meet normally once a fortnight. Certain types of cases may be dealt with directly by the Board itself.

In addition to the setting up of the Foreign Investment Board, Government propose to group industris into two list, viz., those in which no foreign collaboration is to be allowed, and those in which foreign collaboration is to be permitted. These lists will be published and reviewed from time to time, and at least once a year. It is proposed to publish the first set of lists shortly. For the industries in which foreign collaboration is to be permitted, and where royalty rates are proposed, standardised rates of royalties will be indicated for the various industries to facilitate quick disposal of applications. In the specific guidelines which are to be issued to the Ministries so as to enable them to operate speedily within their delegated powers, it is intended to provide that wherever Indian consultancy is available it should be utilised exclusively, and if foreign consultancy is also required, the Indian consultants should be the primary agency employed for consultancy. The main object of regulating foreign investments/collaborations is to continue to ensure that foreign capital/technical know-how is utilised in the manner most advantageous to the country, having regard to the current and future needs and specially to strengthen effedtively its balance of payment position without injuriously affecting the growth of Indian and foreign enterprises already well established in India.

For the benefit of intending investors/collaborators it is intended to publicise suitably the procedures and the facilities available for foreign investment/collaboration at all investment centres, Indian Missions abroad and other suitable places.

ANNOUNCEMENT OF THE GOVERNMENT OF INDIA ON 27 NOVEMBER 1968

Functions of the Foreign Investment Board Illustrative Lists of Industries open for Foreign Investment.

Government has agreed to the delegation of powers to the Foreign Investment Board. The Board, which is expected to be established by I December 1968, will deal with all cases except those in which total investment exceeds Rs. 20 million of equity capital and where the foreign investment exceeds 40 per cent of the issued equity capital.

Government have also agreed to the establishment of a sub-committee of the Foreign Investment Board. This sub-committee, which will include, among others, representatives of the Ministries of Industrial Development, Finance, Company Affairs and the administrative Ministry concerned will deal with cases involving foreign participation up to 25 per cent where total investment does not exceed Rs. 10 million. Cases of technical collaboration where the technical know-how fees are payable in shares will be treated as cases involving foreign investment for this purpose.

With regard to the cases which involve only technical collaboration without any foreign investments, it has been decided that the final decision should be left to the administrative Ministries. The administrative Ministries will deal only with cases of technical collaboration involving payment in cash of royalty or technical know-how fees up to the ceiling rates proposed by the Ministry of Industrial Development and Company Affairs in consultation with the administrative Ministries and the Ministry of Finance.

The case which require clearance of the Cabinet Committee have been indicated. These are (a) where the total investment in equity capital in any Indian Company including foreign equity capital investment (issue of free shares for technical know-how inclusive), exceeds Rs. 20 million; and

(i) in any new Indian company where the foreign equity investment exceeds 40 per cent of the total issued equity capital,

or

(ii) in any existing Indian company, the fresh foreign equity investment will maintain the existing foreign investment at a level above 40 per cent or result in the foreign equity investment exceeding 40 per cent of the total issued equity capital.

and (b) cases of importance involving any special point on which the Foreign Investment Board may desire guidance from the Cabinet Committee.

The distribution of work amongst the Foreign Investment Board, its sub-committee and administrative Ministries has been worked out with a view to keeping to the schedule of three months for disposing of applications for foreign investment. To facilitate work, Government have drawn up lists in consultation with the administrative Ministries and other Departments of cases (a) where foreign investment may be permitted with or without technical collaboration; (b) where foreign technical collaboration may be permitted but not foreign investment and (c) where no foreign collaboration (financial or technical) is considered necessary.

These lists are illustrative. They are not exhaustive and are subject to review from time to time. Government have also indicated the range of royalty where it is permissible. All efforts have been made to make these lists as comprehensive as possible. However, there may be some industries which are not included in these lists. Applications for foreign collaboraion in these industries will be considered on merits by the Board.

These lists are attached.

LIST I (A)

Illustrative List of Industries where Foreign Investment may be permitted

Industry	Royalty range
Oil and Chemical Industries	
Fertilisers (other than single superphosphate)	No royalty
Selective pesticides	Up to 5%
Off-shore oil exploration	No royalty
Oil refining including the production of	-
Special additives and chemicals required for the oil industry	Up to 4 %
Petro-chemicals (not otherwise specified)	Up to 5 %
Thermo-plastics	Up to 3 %
Synthetic rubber	Up to 5 %
Detergent alkylates	Up to 5 %
Certain drugs and pharmaceuticals	Up to 5 %
Edible, Pharmaceutical, photographic and special geletine	Up to 3 %
Paper, Pulp and Allied Industries	
Newsprint	No royalty
Speciality papers like electrical insulation paper and boards such as cable paper, condensar paper presspahn, press board, leatheroid photo-base paper and special type of filter paper	Up to 3 %
Paper and board makers felts	Up to 3 %
Rayon and Synthetic Fibres Industries Nylon & Polyester yarn/fibre including industrial yarn, polypropylene fibre, polyvinyl-alcohol fibre, acrylic fibre	Up to 20 paise per kg.
Asbestos and Carbon Products	
Asbestos packing and jointing	Up to 3 %
Graphite electrodes	Up to 3 %
Timber-based Industries	
Fibre board	No royalty
Particle board	No royalty
Refractories	
Special types including electro cast refractories	Up to 3%

Industry	Royalty range
High Tension Insulators and Bushings and Solid Core Insulators for Railways	
Abrasive Grains	Up to 3%
	Up to 3%
Industrial Machinery	
Cylindrical, tapered, speherical and other special bearings (excluding ball bearing)	
Some items of textile machinery like combers, automatic pirn winding and warp winding machines, processing and finishing machinery	Up to 5%
	Up to 5%
Jute machinery (certain selected items)	
Rayon machinery	Up to 5%
Specialised printing machinery (for example rotary printing presses, Off-set printing presses and composing machinery etc.)	Up to 5%
Rubber processing machinery	Up to 5%
Seamless Tubes	Up to 5%
Cast Iron, Cast Steel and Forged Rolls	No royalty
Specialised items of Chemical and Pharmaceutical Machinery	Up to 3%
Silicones	Up to 5%
Catalysts	Up to 5%
Commercial Explosives	Up to 3%
Watches	Up to 3%
Standard and Portable Typewriters	Up to 3%
Electric Typewriters	Up to 3%
Data Processing Machines	Up to 3%
Calculating and Adding Machines	Up to 5%
Precision Measuring Tools	Up to 3%
Machine Tools and Accessories (Selected types)	Up to 3%
Programme Control Equipment	Up to 5%
High Duty Wharf and Floating Crances of all types	Up to 5%
	Up to 5%
Electrical Engineering Industries	
Electromagnetic and time relays	Up to 5%
Railway electrical signalling	Up to 3%
HRC fuses	Up to 3%
Germanium and silicon diodes	Up to 3%
Dry cells and train lighting cells	Up to 3%

Industry	Royalty range
Electronic instruments and selected electronic components	Up to 5%
Selected measuring instruments	Up to 5%
Electro-medical, optical and dental instruments and equipments for medical profession	Up to 3%
DC motors and controls	Up to 3%
Transistors and very high frequency electrical equipment	Up to 3%
LT & HT circuit breakers	Up to 3%
Power cables above 11 KV	Up to 3%
Earth Moving Equipment	
Crawlewrs, tractors, scrapers, excavators blast hole drills, heavy duty dumpers and haulers, pay loaders, tractor showels, tyre mounted cranes	Up to5%
Power Tiller	Up to 3%
Specialised Automobile Ancillaries	Up to 5%
Industrial Gases	
Oxygen, nitrogen, hydrogen, carbondioxide, acetylene	No royalty
Mine Safety/Rescue appliances	No royalty
Gas Testing Apparatus for Mines	No royalty
Selected Ferro Alloys	Up to 5%
Ferro-molybdenum	
Ferro-titanium	
Ferro-tungsten	
Ferro-vanadium	
Non-ferrous Metals	Up to 3%
Copper	
Zinc	
Lead	
Iron Ore including processes for agglomeration of Ore fines	Up to 3%
Consultancy Engineering	No royalty
Glass industry	
Polished plate glass, laboratory glass-ware and silica ware	Up to 3%
Deep Sea Fishing	—

LIST I (B)

Illustrative List of industries where only Foreign Technical collaboration may be permitted (but not foreign Investment)

Industry	Royalty range
Paper, Pulp and Allied Industries	Up to 3%
Special grades of papers such as Natural tracing paper	
Vegetable parchment paper	
Cigarette paper	
Carbonising tissues	
Stencil-base tissues	
Tabulating manila paper	
High strength kraft paper like sack kraft, waxing, laminating and impregnation base papers	
Vulcanised fibre sheets	
Abrasive body paper	
Chart paper	
Indicator paper	
Tyre-cord and special chemical pulp	
Rubber Goods Manufacturing Industry including Tyres and Tubes	Up to 3%
Rubber contraceptives	
Meteorological balloons	
Fire fighting hoses	
Tennis Balls	
Rubber thread used in hisiery	
Automobile tyres and tubes	
Chemical Industries	Up to 3%
Alkylamines	
Rubber chemicals	
Fluorinated hydro carbons	
Carbon tetrachloride	
Trichlore-ethylene	
Glycol ethers	
Propylene oxide	

Industry	Royalty range
Asbestos and Carbon Products	
Midget electrodes and other special carbon products	Up to 3%
Graphite crucibles	Up to %
Timber-based Industries	
Moulded particle boards	Up to 3%
Electrical Engineering Industries	
Transformers above 1000 KVA	
AC motors above 30 HP	
Fractional house power motors	
Variable speed motors	Up to 3%
Power-line carrier equipments	
Lightening arrestors	
Selected categories of insulation material for electrical. industries	
Flame Proof lamp fittings	
Electric lamps-- (Photo flash pre-focus, infra red, ultra violet, mercury vapour, telephone switch board)	
Lamp components (lead-in wire, filment and fluorescent powder)	
Controls of refrigerators and air conditioners	
Specialised surgical equipments, such as blades, needles, etc.	Up to 3%
AC motor starters for motors above 30 HP	
Hearing aid	
Crane controlgear	
Power capacitors	
CTS and PTS for measuring and protection	Up to 5%
Metallurgical Industries	
SG iron casting	
Alloy iron castings	Up to 3%
Non-ferrous semis not produced in the country at present	
Industrial Machinery Industries	

Industry	Royalty range
Coal and ash handling plant	
Printing machinery	
Gears and gear boses	
Chemical and fertiliser plant	
Metallurgical equipment including foundry equipment (plant and machinery for such items as L.D. converters, rolling mills, special features of blast furnaces for giving improved productivity and coke oven by-products plants)	Up to 5%
Oxygen and acetylene plant	
Caramic machinery	
Pulp and paper mill machinery	
Food processing machinery	
Accelerated freeze drying plant	
Mineral beneficiation plants	
Specialised equipment for air conditioning and refrigeration and air control equipment such as centrifugal compressors, low temperature freezers, transport refrigeraton equipment, electrostatic precipitators, silos, etc.	Up to 5%
Mining machinery : hydraulic props and electric duills	
Any specialised item for industrial machinery other than those particularly excluded vide list of industries where no foreign collaboration (financial or technical) is considered necessary	
Cutting Tools	
Selected cutting tools	Up to 5%
Other miscellaneous Industries	
Improved types of agricultural implements and machinery	Up to 3%
Pesticides application equipment (special types)	Up to 3%
Time-pieces (non-conventional)	Up to 3%
Industrial sewing machines	Up to 5%
Gas appliances	Up to 3%
Hair spring and other types of delicate and complicated springs	Up to 5%
Industrial precision rollar chains bigger than 5/8 pitch,	Up to 5%

Industry	Royalty range
simplex, duplex and triplex, bush chains, special rollers chains for mechanical handling, bush slot bank, trolley conveyor chains, hollow bearing pen type chains	
Special bicycle components, such as multispeed hubs with trigger and twist control	Up to 3%
High pressure pipe fittings of specialised type other than malleable iron fitting	Up to 3%
Ship chains and alloy steel chains other than ordinary mild or steel welded link chains	Up to 3%
Sophisticated of types valves and cocks	Up to 5%
Superior quality sanitary fittings	Up to 3%
Fishing hooks	Up to 3%
Thermo-setting moulding materials	No royalty
Fatty alcohols	No royalty
Electro-plating chemicals	No royalty
Welding fluxes	No royalty
Foundry chemicals	No royalty
Dry-stuffs and intermediates	Up to 3%
Iron ore pelletization including production of sinter feed	No royalty
Alumina	No royalty
Safety razor blades and safety razors	Up to 5%
Alloy and special steels including	
Cold rolled grain oriented sheets	
Special alloy steel	
Tin-free double reduced or single side-plated tin plates	Up to 3%
coloured galvanised sheets	
Plastic coated sheets	
Other special item of steel, etc.	
Wire thinner than 19 g and special wire	
Chemical porcelain	Up to 3%
Welding electrodes (special types)	Up to 3%
Duplicators (special types)	Up to 3%
Steel mill cranes (class IV duty)	Up to 5%

Note: (i) This list indicates the fields where foreign investment is not likely to be required for setting up new units. This does not, however, preclude the expansion of exsting joint ventures.

(ii) Foreign investment is also not precluded in any composite scheme of manufacture where the production of any of the above items is envisaged alone with other major items is the manufacture of which foreign investment is welcome.

LIST II

List of Industries where no Foreign Collaboration (Financial or Technical) is considered necessary

Paper, Pulp and Allied Industries

Common grades of printing, writing packing and wrapping paper and boards e.g.

White printing papers

Azure, cream laid and woven papers

Art paper and board

Litho, off-set paper

Drawing and catridge paper

M.G. poster

Bank and bond paper

Airmail paper

Cheque paper

Typewriting paper

Manifold paper

Ledger paper

Kraft paper

Match paper

Greaseproff and glassine paper

Ordinary M.G. tissue papers

Blotting paper

Straw boards

Mill boards

Grey boards

Pulp board

Duplex board

Ticket board

Carbon paper

Typewriter ribbons

VIP paper

Rubber Goods

Bicycle tyres and tubes

Tyre retreading material

Rubber and canvas footwear
Conveyor belting
Industrial and agricultural hoses
Automobile rubber components
Rubberised fabrics
Latex foam
Industrial and surgical gloves
Medicinal rubber goods such as vaccine and other injectible bottle-vials

Ice cups

Hot water bottles
Reclaim rubber

Chemical Industries

Formaldehyde
Acetic acid
Esters of accetic acid like ethyl acetate
Butyle accetate
Formic acid
Monochloro-acetic acid
Ethyl chloride
Methyl bromide
Chloroform
Methylene chloride
Chlorobenze plasticisers (phthalates-batch process)
Oxalic acid
Chlorinated paraffins
Beer
Ethnaor
Penta-erythritol
Aniline

Leather and Leather Goods Industries

Glue/technical geletine
Vegetable tanning extracts
Pickers
Picking bands

Leather belting
Cotton and hair finished leather
Leather footwear
Synthetic tanning materials

Rayon and Synthetic Fibres Industries

Viscose filament yarn/staple fibre
Viscose tyre yarn
Asbestos and Carbon Products
Ashestos cement products
Pencils

Timber Based Industries

Teachest plywood
commercial plywood
Matches

Glass Industry

Sheet glass
Table and pressed ware
Vacuum flasks
Containerware
Enamelware

Cement and Cement Products
Cement
RCC'pipes
Prestressed and pere-tension cement products
Building bricks and roof tiles

Ceramics Industry

Sanitary-ware
Glazed tiles
Crockery

Castings

Grey casting

Steel casting

Electrical Engineering Industries

Distribution transformers

Power transformers 1000 KVA and below

AC motors below 30 HP

Electronic components (ferrite, transformer coils, telescopic aerials, ceramic capacitors)

Cables (except power cables above 11 KV)

Iron clad switches

Winding wires and strips

Hospital wares

Electric fans

Domestic refrigerators

Domestic air-conditioners

Commercial radio receivers

Houses service meters

Ammeters and vol-meters other than sub-standard

Multimeters

Storage battery

Industrial Machinery

Sugar machinery

Cement machinery

Cement machinery

Conveyors

L.P. gas cylinders

Coal mining machinery (except hydraulic props and electric drills)

Coal washery plant

Building and constructional machinery -- except specialised items

Poultry equipment

Pesticides application equipment (other than special type equipment)

Milk and dairy machinery except specialised items

Cooling towers

Tea processing machinery

Oil mill machinery

Water treatment plant

Solvent extraction plant

Rice mill machinery of conventional type

Weighing machinery except specialised items

Cold formed sections and slotted angles

Tubular structurals

Railway wagons

Railway mechanical and signalling equipment
Railway points and crossing

Steel doors

Windows and rolling shutters

Wire ropes (other than bicable ropeways)

Lifts

Welding electrodes (other than special types)

Bright bars

Welded G.I. steel pipes and tubes

Conduit pipes

Electric hoist block and chain pulley block

Transmission line towere

Rail and road bridges

Structurals (light medium and heavy)

Machine Tools and Small Tools

Forged hand tools (spanners, pliers, etc.)

Steel files (except export oriented)

Twist drills

General Purpose machine tools (simple types)

Other Industries

Drums and barrels

Pilfer proof seals and closures

Hurricane lanterns

Chaff-cutter knives

Collapsible tubes

Crown corks

Buckets

Domestic utensils and cutlery

Agricultural implements and machinery (manual and animal drawn)

Clocks

Time-pieces (conventional)

Franking machines

Duplicators (other than special types)

Oil pressure stoves

Belt fastners

Steel belt lacing

Spectacle frames

Oil pressure lamps

Hand sewing and gramophone needles

Addressing machines

Pressure cookers

Domestic sewing machines

air rifles

Cigarette lighters

Bicycle and bicycle parts

Ball bearings

Steel balls

Leaf springs

Zip fastners

Grinding media

Coil springs excluding hair and other delicate and complicated springs

Snap fastners

Toys

Bolts, nuts, rivets, dogspikes of all types excluding specialised types of rivets

Wood screws other than with special recessed heads

Mild steel welded link chains other than ship chains and alloy steel chains

Machine screws other than specialised types

Pipe fittings other than specialised types

Locks

Valves and cocks other than specialised

Shoe grindery

Builders hardware

Welded wire mesh

Wire gauge and netting

Oil milling

Solvent extraction of oil cakes

Soap

Synthetic detergents (formulations)

Fatty acids

Textile auxiliaries

Paints and allied products

Note: (i) This list indicates the fields where foreign investment is not likely to be required for setting up new units. This does not, however, preclude the expansion of existing joint ventures.

(ii) foreign investment is also not precluded in any composite scheme of manufacture where the production of any of the above items is envisaged along with other major items for the manufacture of which foreign investment is welcome.

ANNEXURE 'H'

THE DILUTION FORMULA

PRESS NOTE

No. F.1/11/71-EE(Inv)
Government of India
Bharat Sarkar
Ministry of Finance
Vitta Mantralaya
Depatment of Economic Affairs
Arthik Karya Vibhag
New Delhi, 19 February 1972 30 Magh 1893 (Saka)

Subject: Guidelines for Reduction of Foreign Holding in Foreign Majority Companies.

The question of formulating a workable relationship between the size of any expansion allowed to a foreign majority company and the extent of dilution in its foreign holdings to be stipulated as a condition thereof, has been examined and it has now been decided by the government that companies with foreign holdings exceeding 75 per cent will raise 40 per cent of the estimated cost of expansion, by issues of additional equity capital (inclusive of premium, if any) to Indians only; the corresponding proportions for companies with foreign holdings exceeding 60 per cent but not exceeding 75 per cent, and those with foreign holdings exceeding 51 per cent but not exceeding 60 per cent will be 33,1/3 per cent and 25 per cent respectively. The companies concerned will be given a reasonable time limit for fulfilling the condition.

2. The companies will settle with the Controller of capital Issues the total amount to be raised, its break-up into the face value or the issue and the premium to be charged thereon, and the timing of the isue. It would be permissible for the companies to suggest to the controller of Capital issues the clubbing of their obligations in case more than one expansion happens to get sanctioned to them at about the same time.

3. The cost of expansion referred to above represents the cost of the land, building, and plant and machinery required for the expansion. Also, the reference to foreign holding relates only to the direct nonresident holdings.

4. The expansion of the capital base resulting from the application of the formula will be indepenent of any further expansion that might result from the operation of the convertibility clause in respect of loan assistance to be provided by public financial institutions for the same expansion.

ANNEXURE 'I'

Industrial Policy-Government's Decisions New Delhi, 2 February 1973.

Government have carefully reviewed their policies relating to industrial development in the light of the experience gained in the implementation of the Industrial Licensing Policy Resolution of 1956 has laid down the basic principles that govern Government's approach towards industrial development. These principles have been derived from the Directive Principles of State Policy contained in the Constitution and from the adoption by Parliament in December 1954 of the soicalist patern of society as the objective of social and economic policy. The Industrial Policy Resolution of 1956 will continue to govern Government's policies for achieving the objectives of growth, social justice and self reliance in the industrial sphere.

Role of Public Sector.

2. As pointed out in the Industrial Policy Resolution the adoption of the socialist pattern of society as the national objective, as well as the need for planned and rapid development, requires that all industries of basic and strategic importance, or in the nature of public utility services, should be in the public sector. Other industries which are essential and require investment on a scale which only the State, in the present circumstances could provide, have also to be in the public sector. In the context of the approach to the Fifth Five Year Plan, the Stae will have to take direct responsibility for the future development of industries over a wide field in order to promote the cardinal ojectives of growth, social justice, self reliance and satisfaction of basic minimum needs.

Licensing Policy

3. The Industrial Licensing Policy of 18 February 1970 was formulated in the context of the Fourth Plan. It also precedes the coming into effect of the Monopolies and Restrictive Trade 1969. Government consider it desirable to up date the Industrial Licensing Policy in order to reflect the approach to the Fifth Plan and taking into account the legal and institutional arrangements that are now available for the effective control the concentration of economic power. The intention in

amending the Industrial Licensing Policy at this time is tha greater clarity in the investment climate will facilitate the priorities and production objectives in the Fifth Plan.

4. The Industrial Licensing Policy of 1970 places certain restrictions on undertakings belonging to the larger industrial houses as defined in the report of the Industrial Licensing Policy inquiry Committee (ILPIC). Such concerns are ordinarily excluded from participating in sectors other than the core and heavy investment sectors leaving the opportunities in the remaining sectors primarily to other classes of entrepreneurs. The definition of larger industrial houses adopted by the ILPIC was, however on the basis of assets along with assets of interconnected undertakings, exceeding Rs. 35 crores.

Government consider that the definition of larger industrial houses to be adopted for licensing restrictions should be in conformity in all respects with that adopted in the MRTP Act 1969. The definition adopted in that Act is on the basis of a lower limit of assets, along with assets of interconnected undertakings, of not less than Rs. 20 crores. The adoption of the lower limit of Rs. 20 crores as well as the definition of interconnected undertakings as provided in the MRTP Act 1969 wil result in a more effective control on the concentration of economic power, it will also remove the contradiction between the definition of larger industrial houses for licensng purposes (which is based on the ILPIC report) and for the control of concentration of economic power (which is based on the MRTP Act. 1969)

5. Government consider it desirable to consolidate the list of industries which are open, along with other applicants, for the participation of larger industrial houses (as defined in the MRTP Act). In the context of the approach to the Fifth Plan, the core industries of importance to the national economy in the future, industries having direct linkages with such core industries, and industries with a long term export potential are all of basic, critical and strategic importance for the growth of the economy. A consolidated list of such industries is attached in Appendix I. Such of the industries included in Schedule A of the Industrial Policy Resolution 1956 will be reserved for the public sector. Larger houses will be eligible to participate in and

contribute to the establishment of industries in the list included in Appendix I along with other applicants, provided that the item of manufacture is not one that is reserved for production in the public sector or in the small scale sector. They will ordinarily be excluded from the industries not included in this list except where, as is permitted under existing arrangements, production is predominantly for exports.

6. Foreign concerns and subsidiaries and branches of foreign companies will be eligible to participate in the industries specified in Appendix I along with other applicants but will ordinarily be excluded from the industries not included in this list. They will also be entitled as at present to invest in industries where production is predominantly for exports. Their investments will be subject as hitherto to the "guidelines on the dilution of foreign equity" and will be examined with special reference to technological aspects, export possibilities and the over-all effect on the balance of payments.

Small Scale and Cooperative Sectors.

7. In the implementation of the licensing policy, Government will ensure that licensing decisions conform to the growth profile of the Plan and that techno-economic and social considerations such as ecnomies of scale, appropriate technology, balanced regional development and development of back-ward areas are fully reflected. Government's policy will continue to be to encourage competent small and medium entrepreneurs in all industries including those listed in Appendix I. Such entrepreneurs will be preferred vis-a-vis the larger industrial houses and foreign companies, in the setting up of new capacity. Licensing policy will seek to promote production of mass consumption goods with the public sector also taking an increasing role. Other investors will be allowed to paticipate in the production of mass consumption goods only if there are special factors such as sizable economies of scale resulting in reduced prices, technological improvements, large investment requirements, substantial export possibilities or as partof modernisation. Government also intend to enlarge and intensify a variety of positive measures designed to promote the growth of small and medium entrepreneurs.

8. The exemption limit from licensing provisions which now applies to substantial expansion and new undertakings upto Rs. 1 crores by way of fixed assets in land, buildings and machinery will be continued. This exemption will not apply to larger industrial houses and to dominant undertakings as defined in the MRTP Act and to foreign companies including their branches and subsidiaries. Along with making the definition of larger industrial houses consistent with the one adopted under the MRTP Act, Government have also decided that the exemption will not apply to existing licensed or registered undertakings provisions of the Industries (Development and Regulation) Act 1951 in respect of new undertakings as well as expansion and diversifications in the delicensed sector. Government hope that these changes will act as a safeguard against the entry of large undertakings into areas that we are primarily meant for small, medium and new entrepreneurs

9. The existing policy of reservation for the small scale sector (involving investment in machinery and equipment up to Rs. 7.5 lakhs, and in the case or ancillary industries up to Rs. 10 lakhs) will be continued. The area of such reservation will be extended consistent with potentialities and performance of the small scale sector. The policy of encouragement to the cooperative sector will receive special emphasis in industries which process agricultural raw materials such as sugarcane, jute, cotton or produce agricultural inputs such as fertilisers. The cooperative sector is also ideally suited for the manufacture and distribution of mass consumption goods.

Joint Sector

10. Government's policy regarding the joint sector is a derived from the Industrial Policy Resolution 1956 and the objective of reducing the concentration of economic power. In appropriate cases, the Central and State Governments have taken equity participation either directly or through their cooporations with private parties. Some joint sector units have come up in this way. This type of joint sector unit is a device which may be resorted to in specific cases having regard to the production targets of the Plan. Each proposal for establishing a joint sector unit of this nature will have to be judged and decided on its merits in the light of Government's social and economic objectives. The

joint sector will also be a promotional instrument, as for instance, in cases where State Governments go into partnership with new and medium entrepreneurs in order to guide them in developing a priority industry.

11. Government specifically wish to clarify that the joint sector will not be permitted to be used for the entry of larger houses, dominant undertakings and foreign companies in industries in which they are otherwise precluded on their own. In all the different kinds of joint sector units, the Government will ensure for itself an effective role in guiding policies, management and operations, the actual pattern and mode being decided as appropriate in each case.

12. Government hope that will these clarifications there will be greater certainty in the investment climate and that all sections of the community will come forward to play their due role in the promotion of growth with self-reliance within the accepted framework of the socialist stimulate growth in all priority industries of importance to the Fifth Plan subject to a more effective enforcement of social objectives. It will be Government's objective to maintain a durable framework of licensing and other connected policies consistent with the basic principles of the Industrial Policy Resolution of 1956 and to further streamline licensing and connected procedures wherever necessary, so as to expedite the investment process in all its stages.

(Note: The classification of industries follows the First Schedule to the Industries (Development and Regulation) Act 1951. Items of manufacture reserved for the public sector under Schedule A to the Industrial Policy Resolution 1956 or for production in the small scale sector as may be notified from time to time will be excluded from the application of the list).

1. Metallurgical Industries

(1) Ferro alloys

(2) Steel castings and forgings

(3) Special steels

(4) Non-ferrous metals and their alloys

2. Boilers and Steam Generating Plants

3. Prime Movers (other than Electrical Generators)

(1) Internal turbines

(2) Internal combustion engines

4. Electrical Equipment

(1) Equipment for transmission and distribution of electricity.

(2) Electrical motors

(3) Electrical furnaces

(4) X-ray equipment

(5) Electronic components and equipment

5. Transportation

(1) Mechanised sailing vessels upto 1000 DWT.

(2) Ship ancillaires

(3) Commercial vehicles

6. Industrial Machinery

7. Machine Tools

7a. Jigs, Fixtures, Tools and Dies of Specialised Types*

8. Agricultural Machinery Tractors and power tillers

9. Earthmoving Machinery

10. Industrial Instruments, indicating, recording and regulating devices for pressure, temperature, rate of flow, weights, levels and the like.

11. Scientific Instruments

12. Nitrogenous and Phosphatic Fertilisers falling under (i) Inorganic fertilisers under '18. Fertilisers' in the First Schedule to the ID&R Act 1951.

13. Chemicals (other than Fertilizers)

(1) Inorganic heavy chemicals

(2) Organic heavy chemicals

(3) Fine chemicals, including photographic chemicals

(4) Synthetic resins and plastics

(5) Synthetic rubbers

(6) Man-made fibres

(7) Industrial explosives

(8) Insecticides, fungicides, weedicides and the like

(9) Synthetic detergents

(10) Miscellaneous chemicals (for industrial use only)

14. Drugs and Pharmaceuticals

(a) Drug intermediates from the basic stage for production of high technology bulk drugs, and

(b) High technology bulk drugs from basic stage and formulation based ther on with an overall ration of bulk drug consumption (from own manufacture) to formulation from all sources of 1:5**

15. Paper and Pulp Including Paper Products

16. Automobile Tyres and Tubes

17. Plate Glass

18. Ceramics

(1) Refractories

(2) Furnace lining bricks-acidic, basic and netural

19. Cement Products

(1) Portland cement

(2) Asbestos cement

* vide press note dated 2.7.76

** vide press note dated 9.5.78

ANNEXURE 'J'

SECTION 29 OF THE FOREIGN EXCHANGE REGULATION ACT 1973
(NO. 46 OF 1973.)

29. (1) Without prejudice to the provisions of section 28 and section 47 and not withstanding anything contained in any other provision of this Act or the provisions of the Companies Act 1956, a person resident outside India (whether a citizen of India or not) or a person who is not a citizen of India but is resident in India, or a company (other than a banking company) which is not incorporated undr any law in force in India or in which the non-resident interest is more than forty per cent, or any branch of such company, shall, not except with the general or special permission of the Reserve Bank -

(a) carry on in India, or establish in India a branch, office, or other place of business for carrying on activity of a trading, commercial or industrial nature, other than an activity for the carrying on of which permission of the Reserve Bank has been obtained under section 28; or

(b) acquire the whole or any part of any undertaking in India of any person or company carrying on any trade, commerce or industry or purchase the shares in India of any such company.

2. (a) Where any person or company (including its branch) referred to in sub-section (1) carries on any activity referred to in clause (a) of that sub-section at the commencement of this Act or has established a branch, office or other place of business for the carrying on of such activity at such commencement, then, such person or company (including its branch) may make an application to the Reserve Bank within a period of six months from such commencement or such further period as the Reseve Bank may allow in this behalf for permission to continue to carry on such activity, as the case my be.

(b) Every application made under clause (a) shall be in such form and contain such particulars as may be specified by the Reserve Bank.

(c) Where any application has been made under clause (a), the Reserve Bank may, by order after making such inquiry as it may deem fit, either allow the application subject to such conditions, if any, as Reseve Bank may think fit to impose or reject the application.

Provided that no application shall be rejected under this clause unless the parties who may be affected by such rejection have been given a reasonable opportunity for making a representation in the matter.

(d) Where an application is rejected by the Reserve Bank under clause (c), the person or company (including its branch), concerned shall continue such activity or close down the branch, office or other place of business established for the carrying on of such activity, as the case may be, on the expiry of period of ninety days or such other later date as may be specified by the Reserve Bank from the date of receipt by such person or company (including its branch) of the communication conveying such rejection).

(c) Where no application has been made under clause (a) by any person or company (including its branch), the Reserve Bank may, by order, direct such person or company (including its branch) to discontinue such activity or to close down the branch, office or other place of business established for the carrying on of such activity, as the case may be, on the expiry of such period as may be specified in the direction.

Provided that no direction shall be made under this clause unless the parties who may be affected by such direction have been given a reasonable opportunity for making a representation in the matter.

(3) Notwitstanding anything contained in sub section (2), the Reserve Bank may, having regard to -

(i) the fact that any person or company (including its branch, referred to in sub-section (1), is carrying on any activity referred to in clause (a) of that sub-section at the commencement of this Act or has established a branch, office or other place of business for the carrying on of such activity a such commencement, in either case, in pursuance of any permission or licence granted by the Central Government; and

(ii) the nature of the activity which is being, or intended to be carried on by such person or company (including its branch), by order, exempt -

(a) such person or company (including its branch) or,

(b) any class of such person or companies (including their branches), in relation to such activity as may be specified in the order, from the operation of the provisions of sub-section (2) subject to such conditions as may be specified in the order.

Provided that the Reserve Bank shall not make any order under this sub-section in a case where the activity which is being, or intended to be, carried on is solely of a trading nature.

(4) (a) Where at the commencement of this Act any person or company (including its branch) referred to in sub-section (1) holds any shares in India of any company referred to in clause (b) of that sub-section, then, such person or company (including its branch) shall not be entitled to continue to hold such shares unless before the expiry of a period of six months from such commencement or such further period as the Reserve Bank may allow in this behalf such person or company (including its branch) has made an application to the Reserve Bank in such form and containing such particulars as may be specified by the Reserve Bank for permission to continue to hold such shares.

(b) Where an application has been made under clause (a), the Reserve Bank may, after making such inquiry as it may deem fit, either allow the application subject to such conditions, if any, as the Reserve Bank may think fit to impose or reject the application:

Provided that no application shall be rejected under this clause unless the parties who may be affected by such rejection have been given a reasonable opportunity for making a representation in the matter.

(c) Where an application has been rejected under clause (b) or where no application has been made under clause (a), the Reserve Bank may, if it is of opinion that it is expedient so to do for the

purpose of conserving the foreign exchange, direct such person or company (including its branch) to sell or procure the sale of such shares:

Provided that no direction shall be made under this clause unless notice of such direction of a period of not less than ninety days has been given to the person or company (including its branch) to be affected by such direction.

Explanation -- For the purposes of this section, "company" has the same meaning as in clause (c) of the Explanation to section 28.

ANNEXURE 'K'

Government of India, Bharat Sarkar, Ministry of Finance, Vitta Mantralaya, Department of Economic Affairs, Arthik Karya Vibhag.

GUIDELINES FOR ADMINISTERING SECTION 29 OF FOREIGN EXCHANGE REGULATION ACT 1973

These guidelines will apply to Indian companies having more than 40% foreign holdings and branches of foreign companies operating in India while seeking approval for carrying on any activity of a trading, commercial, or industrial nature or for starting fresh activities. These will however not apply to non-residents of Indian origin who have been allowed by the Government to make investment in India on a specific condition that niether the capital nor profits/dividends will be allowed to be repatriated.

Branches of foreign companies (except Airlines and Shipping Companies) seeking approval under the Foreign Exchange Regulation Act will be asked to convert themselves into Indian Companies as per policy of Government. This would be without prejudice to any other conditions that may be laid down.

Category	Proposed Action
1. Industrial Activities	
(a) Indian companies having more than 40% foreign shareholding and branches of companies engaged in the production of items specified in Appendix I of Industrial Licensing Policy, February 1973 or engaged in a predominantly export oriented industry (minimum exports being 60% of total production)	(i) Such Indian companies will beallowed to continue on the basis of the existing approvals subject to the condition that they will increase, within a specified period, Indian participation to not less than 26% of the equity of the company.
	(ii) The branches of foreign companies will be required to convert themselves, within a specified period, into Indian companies with Indian participation being not less than 26% of the equity of the company.
	(iii) Such companies will be subject to dilution formula as and when they come up for expansion.
(b) Indian companies having more than 40% foreign shareholding who have been granted an industrial licence after Februray 1970 for maufacturing activities in the production of items specified in Appendix I of the Industrial Licensing Policy, 1973 or engaged in predominantly export-oriented industry (minimum exports being 60% of total production).	(i) They will be exempt from the provisions of Section 29 subject to the condition that they will increase, within a specified period, Indian participaion to not less than 26% of the equity of the company.

Category	Proposed Action
(c) Indian companies having more than 40% foreign shareholding and branches of foreign companies having a valid industrial licence and engaged in production of items not specified in Appendix I of Industrial Licensing Policy 1973 but engaged in the manufacturing ativities which need sophisticated technology.	(i) The extent of foreign shareholding in the existing Indian companies will be considered on merits of each case subject to the condition that they will increase with a specified period, Indian participation to not less than 26% of the equity of the company.
	(ii) The branches of foreign companies will be required to convert themselves with in a specified period, into Indian companies with Indian participation of not less than 26% of the equity of the company.
	(iii) In determining whether a technology is sophisticated or not, Depatment of Science and Technology will be consulted and consideraion will be given, interalia, to aspects such as (i) whether the technology is used for the manufacture of products which would otherwise necessitiateimports.(ii) whether the discontinuance of the manufacture of products with the technology would have adverse impact on the company etc.
(d) Indian companies having more than 40% foreign shareholding and branches of foreign companies engaged in other maufacturing activities.	(i) Such Indian companies will be required to bring down within a specified period, foreign shareholdings to the level of 40%
	(ii) The branches of foreign companies will be required to convert themselves into Indian companies having foreign shareholding not exceeding 40% within a specified period.
	(iii) Alternatively, they willberequired to change, within a specified period their character from existing manufacturing activities to predominantly manufacturing activities in the areas specified in Appendix I of Industrial Licensing Policy 1973 or to engage themselves in predominantly export-oriented industries (minimum exports being 60% of total production).
II. Trading Activities	
(a) Indian companies having more than 40% foreign shareholding and branches of foreign companies engaged predominantly in internal trading and commerical activites.	(i) No fresh foreign equity participation will be permitted.
	(ii) Existing Indian Companies will be required to bring down their foreign shareholding to 40% within a specified period.
	(iii) The branches of foreign companies will be required to convert themselves into Indian companies having foreign holding not exceeding 40% within a specified period.
	(iv) In exceptional cases where they have developed expertise, skills, or facilities (distribution net work, etc.) which are not readily available indigenously and are contributing significant to exports, foreign shareholding more than 40% but not exceeding 74% may be allowed depending upon the merits of each case.
	(v) Alternatively, they will be required to change, within a specified period, their character from predominantly trading activities to predominantly manufacturing activities in the areas specified in Appendix I of Industrial Licensing

Category	Proposed Action
	Policy 1973 or to engage themselves in predominantly export-oriented industries (minimum exports being 60% of total production.)
	(vi) If the above alternatives are not acceptable to them they will be allowed a reasonable time to wind up their business activities in India.
(b) Manufacturing companies i.e., indian companies with more than 40% foreign shareholding and branches of foreign companies engaged in trading activities in respect of products not manufactured by them.	(i) They will not be denied permission for internal trading in respect of essential or associate products in the overall interest of the consumers as also of development of ancillaires provided the articles so traded are functionally related to the company's main manufacturing activities and constitute relatively a small portion of the overall activity (not exceeding 25% of ex-factory value of the annual production or Rs. 5 crores whichever is less). The approval shall also be subject to the condition that the companies shall not be permitted to use, for internal trade, their trade marks or brand names in respect of the products not manufactured by them.
III. Others	
Indian companies having more than 40% foreign shareholding and branches of foreign companies engaged in:	
(a) Construction activities.	(i) Indian companies having more than 40% foreign shareholding will be required to bring down their foreign shareholding to 40% wihtinaspecified period. (ii) In exceptional cases where they have developed such expertise or skills or technology which is not indigenously available, higher foreign shareholding not exceeding 74% of the equity may be allowed. (iii) Branches of foreign companies will be required to convert themselves into Indian compaies with foreign shareholding not exceeding 40% within a specified period.
(b) Plantation activities.	(i) Tea plantation will, by and large, be treated at par with manufacturing industries specified in Appendix I of Industrial Licensing Policy 1973 subject to the condition that they will increase within a specified period Indian participation to not less than 26% of the equity of the company. (ii) Branches of foreign companies will be required to convert themselves, within a specified period, into Indian companies with Indian participation being not less than 26% of the equityof the company. (iii) Branches of foreign companies engaged in other than tea plantation activities will be requuired to convert themselves into Indian companies with foreign shareholding not exceeding 40% and the Indian compaanies will be required to bring down their foreign shareholding to 40% within a specified period.

Category	Proposed Action
(c) Consultancy work	
(i) Technical and engineering consultants.	(i) Indian companies having more than 40% foreign shareholding will be required to bring down their foreign shareholding to 40% within a specified period.
	(ii) Branches of foreign companies will be required to convert themselves into Indian companies with foreign shareholding not exceeding 40% within a specified period.
	(iii) In exceptional cases, if they are engaged in such technology or skills which are indigenously not available, higher foreign shareholding not exceeding 74% of the equity may be allowed on merits.
(ii) Non-technical consultants.	(i) So far as the management, financial and accountancy firms are concerned and since sufficient indigenous expertise in these spheres is available in the country, the Indian companies with foreign maority shareholding as well as branches of foreign companies will be required to reduce their foreign shareholding to 40% within a specified period.
(d) Maufacturing companies engaged in consultancy work.	(i) They will be allowed to act as consultants in respect of those areas in which they have developed specilisation. Such facilities will however not be available to companies predominantly engaged in trading and non-manufacturing activities.
IV. Airlines and Shipping Companies	(i) The functioning of branches of air and shipping companies operaing in India will be decided on reciprocity basis.
V. Miscellaneous	
Indian compaies having more tha 40% foreign shareholding and branches of foreign companies engaged in activities other those specified herein before.	(i) The branches of foreign companies will be required to convert themselves, within a specified period, into Indian companies with Indian participation of not less than 26% of the equity of the company.
	(ii) Indian companies having more than 40% foreign shareholdings will be required to bring down their foreign shareholding to 40% within a specified period.
	(iii) In exceptional cases, it they are engaged in such technology or skills which are indigenously not available higher foreign shareholding not exceeding 74% of the equity may be allowed on merits.

Explanatory Notes

(i) While giving fresh approvals to the cases in accordance with above guidelines, aspects such as the research and development programme initiated by the Indian company and stipulations which restrict the transfer of technology from the foreign collaborator to the Indian company, restrictions o sub-licensing of technology and stipulations for the acquistion of raw materials and components from the foreign collacrator, existing regulations in respect of the patent law, etc., will be borne in mind.

(ii) Whether a company is engaged in multi-activity operations, a total view will have to be taken of all the activities in which a company is engaged while considering the question of allowing it to continue to carry on business. The proportion of activity covered by Appendix I of the Industrial Licensing Policy, February 1973 and those falling outside thereof will be a material consideraion. In such case, if activities outside Appendix I constitute only a minor part of the total activities (not exceeding 25% of exfactory value of the annual production or Rs. 5 crores whichever is less) it will be allowed to continue on the basis of existing approvals, provided Indian participation is not less than 26% or the equity of the company.

(iii) While it will be open to companies primarily falling under Clause I (d) "other maufacturing activities" or Clause II (a) "Trading activities" to change their character and become predominantly manufacturing companies in the areas covered under Appendix I of the Industrial Licensing Policy, February 1973 or other approved categories under Clause I (c) they would have to obtain the requisite Industrial Licence and other Government approvals in the normal way, within the framework laid down by Government from time to time.

(iv) In the case of 100% export-oriented units the foreign equity paticipation of more than 74% may be allowed on merits of each case.

ANNEXURE 'L'

Letter from Finance Minister to IMF

Finance Minister, India September 28, 1981

Dear Mr. De Larosiere,

1. The Government of India is currently implementing a set of policies designed to achieve a medium-term adjustment to the structural changes to which the economy has been subjected following, among other thing, the sharp deterioration in terms of trade, and to higher oil prices. These policies are an integral part of the Sixth Plan (1980/81 -- 1984/85).

2. After several years of strong economic performance marked by sustained growth in output, internal prie stability and a healthier external payments situation, India's economic position suffered a serious setback in 1979/80. Severe drought resulted in a sharp reduction in domestic output. agricultural production fell substantially, and the deterioration extended to basic infrastructure and industry as well. The shortfall in supplies affected export performance at a time when the import bill rose sharply, inflation re-emerged early in 1979 and the balance of payments deteriorated sharply in the second half of that year. Since 1980/81 the economy has been moving upward with recovery in agricultural production and improvement in infrastructure performance. Real GDP has risen strongly, and improved supplies and restrained financial policies have helped to bring about some subsidence in inflation. However, the balance of payments has weakened further to a deficit of SDR 1.6 billion as a result of a further deterioration in the terms of trade, reflecting mainly the full impact of the rise in prices of oil and related producs, the earlier disruptions to domestic oil production, weak market demand and restricted aces fo our exports due to increased protectionism.

3. We expect that India's balance of payments positions will be under pressure for several years to come. The details of the adjustment programme adopted by the Government of India are contained in the attached memorandum. In brief, the programme aims to resolve the

medium-term balance of payments problems by measures to promote higher export growth and efficient import substitution, especially in the energy sector. It will take some time for these measures to show results and in the meantime, the balance of payments will continue to be in deficit. During the adjustment period, the programme provides for measures to increase domestic savings and for appropriate demand management.

4. In support of its programme, and in view of the present and prospective balance of payments need, the Government of India requests an extended arrangement for a period of three years for an amount equivalent to SDR 5 billion.

5. The Government of India believes that the policies to be followed in 1981/82, which are described in the attached memorandum, are adequate to achieve the objectives of its programme but will take any further measures that may become appropriate for this purpose. *The Government will consult with the Fund on the adoption of any appropriate measures, consistent with the national policies accepted by our Parliament, in accordance with policies of the fund on such consultation. In particular, the government will review with the Fund the progress made in implementing the programme, normally about midway through each year, as part of the ongoing dialogue with the Fund.* Wih respect to the programme for the first year, the Government will, in conjunction with the next Article IV consultation discussions consult with the Fund brefore March 25, 1982 on the government's measures, which are in line with its declared policies, and have a bearing on the programme and, in particular, on those relating to resource mobilisation and exports in view of paragraphs 13,15 and 18 of the annexed memorandum and reach such understandings with the Fund as are necessary for the purposes of achieving the objectives of the programme.

Yours sincerely,

Sd/

(R. Venkataraman)
Finance Minister

"STATEMENT OF ECONOMIC POLICIES"

(N. RAM, HINDU, ACCTOBER 19, 1981).

(A summary by this correspondent of the official memorandum annexed to the Finance Minister's letter, which is "Attachment B" in the confidential agenda papers for the IMF Executive Board meeting scheduled on November 9. The numbering is as in the original, but the paragraphs have been broken up for readability)

On the recent economic situation:

"1. The Indian economy made considerable progress during the second half of the 1970s. During the four years 1975/76 to 1978/79, real economic growth exceeded 6 per cent per annum while price inflation was about 2 per cent per annum. Agricultural expansion accelerated so that food imports were virtually eliminated by 1977/78 and sizable food stocks were accumulated. Industrial growth was also generally satisfactory. Savings rose from about 20 to almost 24 per cent of GDP, reflecting higher growth, the deepening of the financial system, favourable price performance and a rapid growth in remittances from Indians working abroad. The balance of payments position was strong throughout the period and sizable external reserves were accumulated.

"In 1979-80, however, the economy suffered a sharp setback because of both domestic and external factors...real national income fell by 5 per cent in 1979/80 and inflation, which re-emerged early in the year, was over 20 per cent. Domestic savings fell to about 21 per ent of GDP. The external situation facing the economy also deteriorated sharply. The price of imported oil doubted from the end of 1978 to January 1980 and this was relfected in a shift into an overall deficit in the balance of payments in the second half of 11979/80."

On the current economic situation:

"2. The economic situation improved in 1980/81, and overall growth is estimated to have been about 7.0 per cent. Performance during the first half of the year continued to be constrained by the lingering effects of drought and infrastructural difficulties. However, with a near normal monsoon, agricultural production recovered fully. Infrastructural bottlenecks also eased about mid-year with improvements in the availability of electricity and coal. Railway movement improved

although some transportation bottlenecks still remained. Industrial production began a strong recovery in the second half of 1980/81. Inflationary pressures eased somewhat during the year in response to the improving supply position and demand management measures. The rate of inflation decline to about 16 per cent in 1980/81. Progress in this respect would have been greater but for continuing increases in import prices and substantial upward revision in administered prices.'

"At the same time, external constraints on the economy became more severe. The full effect of the increases in oil prices in the previous year was felt in 1980/81. External demand conditions facing India's exports remained weak, patly due to the rising tide of protectionism abroad. Inadequate supplies also constrained export growth, especially during the first half of the year. Conequently, the balance of payments deficit widened to SDR 1.2 billions.

"3. The recovery which began in the middle of 1980/81 has continued to gain strength in the current year. Performance of coal, power, and railways has improved considerably...production in several critical industries has shown a sharp increase in recent months compared to the previous year, reflecting an improvement in capacity utilisation. In the period January-June 1981 steel production increased by 20 per cent, cement by 17 per cent, and fertilizer by 32 per cent. Inflationary pressure has also eased. The 12-month rate of inflation declined fom about 16 per cent in January 1981 to 10 per cent by the end of July. However, the balance of payments continues to be under severe strain."

On balance of payments difficulties, IMF's role and adjustment strategy:

"4. The present balance of payments difficulties are expected to persist for several years before policies to strengthen the balance of payments have their full effect. It is in this context that Fund financing can play in important role. Balance of payments adjustment will be achieved through a range of measures which are being implemented and will be continued through the programme period. There is considerable scope to replace large imports of items where India is an efficient producer and to increase self-reliance in energy, especially in the exploration for and development of hydrocarbons.

"The Government of India also accords high priority to the objective of achieving a dynamic export performance. To this end, the government has already taken a number of measures to promote exports. However, it will take time for these measures to bear fruit. Such measures to promote external adjustment, including efforts to overcome bottlenecks in industry and basic infrastructure, will require a sizable step-up in investment. Large investments will require higher domestic savings, and policies will continue to be designed to this end. The containment of inflation is an important objective, and domestic financial policies will be oriented to achieve this end to strengthen the effeciency of resource allocation."

"5. The adjustment strategy outlined in the preceding paragraph is a part of the Sixth Plan efforts. The Plan (1980/81 through 1984/85) aims to achieve economic growth of 5.2 per cent per annum, of 3.3 per cent in per capita terms...to finance plan investments, domestic savings are projected to rise from 21.2 per cent of GDP in 1979/80 to 24.5 per cent of GD in 1984/85, implying a marginal savings rate in excess of 33 per cent. A major effort will be made to increase public sector savings to finance 21 per cent of total plan investments over the plan period. Private savings are estimated to account for 73 per cent of the total. Foreign capital inflows, mainly on concessional terms, will finance the remaining 6 per cent... *The plan provides that the main emphasis of public sector resource mobilisation policies will be on raising the contribution of the large public enterprise sector by improving efficiency and pricing policies and on containing the burden of subsidies* (emphasis added). The States are expected to make an important contribution to finacing plan outlays.

On plan investment :

"6. Total investment is estimated to be Rs.1,587 billions during the five-year period throuh 1984/85. Compared with the Fifth Plan, there is a projected real increase in investment outlays for morethan 80 per cent to 53 per cent, reflecting the emphasis of the Plan on overcoming bottlenecks in the infrastructure... The sectoral allocation of public sector investment expenditures reflects the Plan's objectives

of structural diversification, modernisation and self-reliance...The public investment programme will be implemented flexibly in light of the emerging situation during the Plan period."

On agricultural development strategy:

"7. The agricultural development strategy followed in the late 1960s will be maintained and strenghened. In addition, agricultural policy will aim at improving the balance of production with a major emphasis on efforts to overcome domestic shortages in non-foodgrain production, including oilseed, pulses, and sugarcane. This should help to reduce import needs and contain inflation while also creating and enlarging exportable surpluses in some commodities...*parallel with efforts to promote the spread of modern production techniques, output pricing policies will be deployed so that financial incentives encourage the desired level and pattern of agricultural output consistent with overall price policy* (emphasis added)...The Government is committed to development programmes aimed at the upliftment of the weaker sections of society, especially in rural areas.

On focus of public sector programme.

"8. The public sector programme will focus on overcoming the bottlenecks in the supply of basic goods and essential infrastructure. Efforts are being made to strengthen the management of public enterprises. It is the Government's belief that, with these levels of public sector plan expendites...supported by private sector investment where relevant, productive capacity in six key sectors will expand..."

(The memorandum offers these projections for estimated production in 1984/85: 165 million tonnes of coal; 51,192 MW of installed capacity in electric power by year-end; 5.94 million tonnes of nitrogenous fertilizer; railway freight traffic of 220 billion tonne bilometres; 14.30 million tonnes of steel; and 43 million tonnes of cement. However, "projections for total public sector outlays and productive capacity expansion in the above six sectors for 1982/83 and 1983/84 toward meeting the plan targets" will be adopted only in the course of formulating the annual plans for these years).

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On policies towards th. private sector:

"9. Policies relating to private sector industty will aim at encouraging production, investment and economic efficiency. The Government's Industrial Policy Statement of July 1980 reflects apragmatic policy approach. Accordingly, a number of important policy initiatives have already been taken. additional capacities created since 1975 are being regularised for a wide range of industries, existing arrangements providing for the automatic expansion of capacity have been extended to 19 additional industries; fully export-oriented units have been given additional concessions, and export capacity has been exempted from anti-monopoly regulations and domestic licensing provisions; policies favouring small-scale industries are being implemented in a way which places a much increased emphasis on economic efficiency and import of foreign technology needed by the eonomy is being permitted liberally.

"The new industrial policies are being implemented through a flexible administration of existing regulations. Further adaptation of policies to achieve the objectives stated earlier will continue to be kept under review. The Government recognises the important role of industrial pricing policy and intends to follow a policy which takes account of the objectives that industry should earn adequate returns, and that prices should encourage the efficient use of resources.

On energy:

"10. Energy will get a critical issue for the 1980s. Although India's per capital energy consumption is very low, the Government of India recognises the need and scope for conservation of energy. Energy pricing policies are an important component of measures to this end. Coal prices have been raised recently, to cover increased costs. It is the Government's policy objective that domestic coal and electricity prices should reflect economic cost and generate internal resources for investment."

"11. In the petroleum sector, the Government recognises that the sharp increse in oil prices that occurred in 1979 has imposed a severe strain on the balance of payments. Recently, it has been decided to step up the production of oil, mainly from off shore sources, beyond the

levels projected in the Sixth Plan. The Government has also invited foreign parties to tender for exploration and development in designated areas on a profit-sharing basis. The proportion of imports of crude oil and products in total requirements of petroleum products declined from about 70 per cent in 1980/81 to 47 per cent by 1984/85. The Government has made a number of upward adjustments in petroleum prices which should help moderate the growth of demand. Beyond these steps to pass on higher costs, in July 1981 the Government has implemented a substantial upward adjustment in the price of domestically produced crude oil. The price of domestic crude is now on par with international prices. The latest price increase will raise a substantial volume of additional resources to finance plan expenditure. Oil pricing policy thus serves the dual objective of moderating growth of demand and contributing to non-inflationery financing of the public sector investment targets."

On ways of resource mobilisation:

"12. The financing of the Plan envisages a shift in the contribution of various individual resource items and places greater emphasis than in the past on non-tax resources. Total tax revenues (ncluding the States) have already reached about 20 per cent of national income and there is consequently only limited scope for the Central government to increase tax rates. Nevertheless, new Central Government tax measures are expected to yield over Rs.51 billions over the plan period. The major thrust of the tax effort will be toward rationalisation of the tax system, improved tax administration and selective additional tax measures.

"The Central government also intends to contain, and wherever possible, reduce subsidies, even though this might ential price adjustment for imortant commodities. It is expected that measures to contain subsidies will yield resource savings totalling Rs.33 billions during the plan period. Pricing and administrative improvements to be implemented during the plan period will aim to achieve a 10 per cent rate of return on investments in public enterprises 2 percentage points above the previous norm."

On price reform to mobilise resources:

"13. An important objective during the programme period is to achieve a substantial increase in domestic resource mobilisation in order to finance the investment programme...to this end, the Government as already undertaken a massive effort to mobilise additional resourcs in 1980/81 and in 198/82... In addition to tax measures, the Central government increased railway and postal and transport tariffs in 1980/81 and again in 1981/82... Steel prices were raised by 20 per cent and coal prices by 20.50 per cent in 1980/81... Petroleum prices were raised in June 1980 and again in January 1981. More recently the Government has increased the price of domestic crude oil... The Government has also taken steps to reduce subsidis...Fertilizer prices were raised. These increase in petroleum and fertilizer prices have meant a massive upward adjustment within a very short period...The additional burden borne by the consumer because of these adjustments amounts to over 3 per cent of GDP (emphasis added)...

"The State Governments have also raised substantial additional resources...Beyond these efforts at additional resource mobilisation, normal price adjustments in the public sector designed to ensure that cost increases are passed on and do not erode profitability have continued to be made. for example prices of aluminium were increased...And coment prices have recently been increased by 16 per cent...It is the Government's intention to ensure that this flexibility in pricing will continue.

"The Central Government...intends to implement further resource mobilisation measures as necessary during the programme period to ensure that resources to finance the investment programme are realised. The Government intends to review progress in additional resource mobilisation measures before the end of January 1982."

On government spending and budgetary stringency"

"14. The underlying strategy with respect to Government spending is to curtail the growth of non-Plan expenditures in order to redirect resources toward the Plan...Despite the ambitious Central Plan, and owing, in part, to the reliance on internal resources of public sector

undertakings, the Central Government budget for 1981/82 is stringent by historical standards. In current price terms, total expenditure is budgeted to increase by only 9 per cent, revenue disbursements by 12 per cent, and capital disbursements by 5 per cent over the revised estimates for 1980/81.

"To finance Central Government expenditures, budgetary receipts are projected to rise by 12 per cent. Of the increase, new tax measures are projected to constitute less than 2 percentage points in net terms, which is small in comparison with increases in recent years. This is because considerable direct tax relief has been allowed with the aim of promoting savings and stimulating investment. However, the revenue loss from direct taxes will be more than compensated for by an increase in indirect taxes.

On Incentives to private sector savings:

"15. The achievement of the planned step-up in investment depends on the continued buyancy of privat sector savings...With a resumption of rapid economic growth as envisaged under the plan, and further depending of financial intermediation as the activities of financial institutions spread and strengthen marginal private savings can be expected to return to the earlier high levels. with the objective of promoting private savings further, the Government intends to strengthen the activities of he financial institutions in rural areas, and widen the scope of attractive financial assets available to private savers...The Government budget for 1980/81 also includes tax concessions designed to encourage private savings. Interest rate policy will be deployed flexibly keeping in mind the objectives and progress in reducing inflating. The authorities intend to review policy options promote the desired growth in private savings."

On Monetary and financial policies and supply side orientation:

"16. The emphasis on monetary and financial policies in the recent past has been on containing inflationary pressures and restraining the rate of monetary expansion. This has been partly responsible for the

recent easing the rate of inflation. The principal objective of monetary policy, over the programme period will be to promote relative stability in prices while supporting more rapid growth and supply-side policies.

"Despite the large volume of investment envisaged in infrastructure, it is intended to keep the Government's total recourse to bank credit within limits consistent with overall financial stability. Interest rates on bank advances were further adjusted upward... Interest rates charged by the term-lending institutions were stepped up substantially in line with the objectives just stated and in the context of developments in recent months, further measures hae been taken to restrain the growth in money and credit.

"The liquidity of commercial banks will be contained by phased increases in the cash reserve ratio and the statutory liquidity ratio (The latter) will be raised from 34.5 per cent by September 25, 1981 and again to 35 per cent effective October 31, 1981. These adjustments when complete, are estimated to reduce loanable funds with the scheduled banks by about Rs. 9 billions or 2 per cent of their demand and time liabilities as at end - March 1981."

Ceilings on net credit to Government and total domestic credit:

"17. The financial programme for 1981/82 has been framed in this light. Consistent with real growth of about 5 per cent which appears feasible if weather conditions are favourable, the Government will aim to limit the growth of total liquidity to about 15.7 per cent in 1981/82. Taking account of the projected balance of payments deficit total domestic credit expansion is to be limited to 19.4 per cent. Corrective measures will be taken promptly if developments suggest that the ceilings may be exceeded."

On export drive:

"18. A critical objective of the programme is to increase the growth in exports. The Government has recently reviewed export promotion and development policies and a number of new initiatives have already been taken. Export production has been freed from restrictions arising from industrial licensing. Exports will not be included in the

calculation of capacity for purposes of industrial licensing or for purposes of the Monopolies and Restrictive Trade Practice Act. The Government's export policy review identified certain additional measures which could further strengthen the export effort.

"The Government is currently considering these with a view to their possible introduction although no decisions have yet been reached. These include extending concessions to less than 100 per cent export-oriented units, expanding the coverage and simplifying procedures of the advance licensing (duty exemption) scheme for exporters; extending access of exports to imports, liberalising access of exporters to foreign technology, improving procedures for fixing duty drawback rates and settling drawback claims, and the coordination of supply and demand policies to promote consistent exportable surpluses of agricultural commodities.

"The general thrust of recent policy changes has been to eliminate identified constraints on exports and the Government intends to take further significant measures to strengthen the export effort during the programme period. The Government intends to review all relevant policies bearing on export development before the end of January 1982 and if necessary will strengthen its policies (emphasis added)."

On import liberalisation:

"19. Import restrictions were progressively relaxed in the late 1970s. This has greatly increased access of domestic producers to imports of raw materials and intermediate goods. Restrictions on imports of capital goods have also been eased considerably... The import policies for 1980/81 and 1981/82 made further modifications, including restrictions for some items, and liberalisation with regard to some others...The Government emphasises that these modifications do not represent a change in the direction of its policies, have not resulted in an overall tightening of imports restrictions and that the liberal import regime remains essentially unchanged...

"Import policy for the period ahead will be guided by the need to ensure that import requirements and technology needs of a growing economy and a heavy investment programme are adequately and

expeditiously met with a view to economic efficiency. The rise in imports will include large increases in capital goods to support the investment programme, and producer, items to support expanded economic activity.

"To support this, it is our intention to carry forward the progress achieved over recent years toward liberalisation of imports of raw materials, intermediate and capital goods needed by the economy. It is our intention that the import policies for 1981/83 and 1983/84 will contian significant steps aimed at liberalising imports...Where appropriate in the interest of economic efficiency, consideration will be given to further imports of selected categories being produced at present. Measures introduced will be greater in impact than any adjustments to tighten restrictions."

Specific measures contemplated include increasing the access to imports of restricted and banned items permitted under automatic import licences as well as changes in the classification of items under the restricted, banned and open lists...

On balance of payments financing gap:

"20. Our export and import policies are guided by the objective of achieving external adjustment during the 1980s...Projections for 1981/82 indicate that the deterioration in the current account will be arrested in that year...However, in the two subsequent years, the current account deficit would widen as non-oil imports are expected to expand strongly to support expanding investment and production. The current deficit as a proportion of GDP would peak in 1983/84, at 2.2 per cent of GDP...It would decline markedly to 1.8 per cent in 1984/85.

"Taking into account official capital receipts, increased recourse of commercial credits and the possibility of private capital inflows, the balance of payments financing gap is projected to be SDR 6.4 billions during the 1981/82-1983/84 period".

On external borrowing and external debt:

"21. Until very recently, India has resorted only modestly to external borrowing on commercial terms and the bulk of its foreign debt arises from assistance channeled through the India consortium and is

predominatly on concessional terms. India's outstanding disbursed external debt currently amounts to about SDR 14 billions, equivalent to some 11 per cent of GDP. The external debt service ratio declined steadly during the 1970s and in 1980/81 debt service payments are estimated to be 8 per cent of current account receipts.

"The ratio is projected to rise over the coming years, reflecting an expectd increase in recourse to borrowing on commercial terms, and an expected hardening of the average terms of multilateral flows (emphasis added). Nevertheless, the debt servicing burden will remain manageable.

"In order to avoid an undue deterioration of the debt service profile, the Government intends to take a cautions approach to foreign borrowing on commercial terms. The Government is considering two large projects in the steel and electric power sectors. The two projects, which are still at the planning stage, would have a combined foreign exchange cost of about SDR 3 billions. A considerable portion of the external financing arrangements for these projects would be on non-concessional terms. While it is expected that external borrowing commitments for both projects will be undertaken at some stage during the programme period, only a part of the loans would be disbursed by 1983/84. As an order to magnitude, these disbursements which are excluded from balance of payments projects, would be expected to about SDR 1 billion during the programme period.

"Bearing these borrowings in mind, during the first year of the extended arrangement the Government will limit the contracting or guaranteeing of other non-concessional loans with an original maturity of between one and 12 years to no more than SDR 1.4 billions. With this ceiling, new commitments of between one and five years will be limited to SDR 400 millions".

On realistic exchange rate policies and export promotion:

"22. The rupee has been pegged to a basket of currencies of India's trading partners since September 1975, with the pound sterling as the intervention currency. The relationship between the rupee and the basket of currencies is maintained within margins of 5 per cent. This system has proved highly satisfactory. The major constraints on

exports at the present time arises from inadequate supplies. The Government also recognises that exchange rate policy has an important bearing on export growth. During the programme period the Government intends to pursue a realistic policy in regard to exchange rates keeping in mind, inter alia, their objectives with regard to the overall balance of payments and export promotion.